2010

Annual Report and Accounts: 2009/2010

Financial Services Compensation Scheme

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Contents

About Us

The Financial Services Compensation Scheme (FSCS) is the UK's statutory fund of last resort for customers of authorised financial services firms. This means that the FSCS can pay compensation if a firm is unable, or likely to be unable, to pay claims against it.

The FSCS is a non-profit making independent body, created under the Financial Services and Markets Act 2000 (FSMA). It is funded by levies on authorised financial services firms. The FSCS does not charge individual consumers for using its service.

For more information, please see pages 124 to 133.

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Section 1

Chairman's Statement – David Hall

The global financial crisis and its aftermath continue to dominate the FSCS's agenda. We have focused on learning as much as we can in order to help us adapt to a wide range of possible future challenges.

David Hall

The passing of new legislation has placed a spotlight on the way in which we operate. The Banking Act 2009 (and the more recent provisions of the Financial Services Act 2010) expanded our role domestically and internationally. We continue to work closely with the Tripartite Authorities (HM Treasury, Bank of England and the Financial Services Authority (FSA)) to ensure that the FSCS is well positioned to meet the demands of its changing role.

We have worked hard this year to develop our systems and to lay the foundations for major improvements which will benefit consumers and allow for more efficient and effective delivery of compensation. This is an ambitious but deliverable agenda, combining measures to implement regulatory and legal reforms to enhance the role of the FSCS as the financial safety net for consumers. We will continue to deliver this programme of work during 2010/11.

An important element of the reforms will be the measures for faster payout of compensation to customers of deposit-taking firms from the start of 2011. We are continuing to liaise closely with our stakeholders to make sure that we, and the industry, are fully prepared for this development.

Part of our strategy is to increase flexibility in our operating model. One of the ways we can achieve this is to build on our use of outsourcing to help us manage our claims work and the associated costs. We aim to be increasingly responsive to fluctuations in our workload and manage costs even more efficiently. This model has already demonstrated that, with good working relations between ourselves and the outsourcing teams, consumers receive a consistently higher standard of service.

Our strategy needs to be viewed in the context of the wider debate about reforming consumer protection and compensation at both the UK and European levels. We are keen to play a full and active part in this debate, and during 2009/10 we made sure that any policy changes benefited from our knowledge and practical experience.

The ongoing work connected to the failure of five banks (Bradford & Bingley plc; Landsbanki Islands hf (Icesave); Heritable Bank Plc;

We believe the very existence of the Scheme has played its part in helping to revive consumer confidence in financial services.

Kaupthing Singer & Friedlander Limited and London Scottish Bank Plc) accounted for large numbers of claims at the start of 2009/10. We also carried out the validations of the FSCS contributions to the transfer of deposit accounts for Bradford & Bingley plc, Heritable Bank Plc and Kaupthing Singer & Friedlander Limited, while at the same time pursuing recoveries. We are pleased to report that this year we have made recoveries of more than £1bn, from Heritable Bank Plc and Kaupthing Singer & Friedlander Limited.

To pay for the banking defaults, we borrowed from HM Treasury and the current arrangements expire in 2012. We recognise that levy payers would like more certainty on how we will repay these loans. When a schedule is agreed with HM Treasury, we will ensure that this is communicated to the industry.

Based on the latest information available to us we have also made a provision of £400m for our estimated liability for Dunfermline Building Society. Once we have more information we will update the industry.

The bulk of our claims work in the second part of 2009/10 focused on investment claims, which attracted a great deal of attention. Many of these claims related to Pacific Continental Securities (UK) Limited and Square Mile Securities Limited, declared in default at the end of March 2009. These were followed by the failure of Keydata Investment Services Limited, which resulted in some complex claims and funding issues.

These investment failures placed considerable demands on the Investment Intermediation sub-class of levy payers. We are always conscious of the fact that the costs of compensation are unwelcome for the industry, especially during difficult times. Before confirming the levy, we listened to the concerns the Investment Intermediation sub-class raised about the contribution group into which a levy should fall and took independent legal advice to ensure that our interpretation of the rules was correct. We are disappointed that a number of firms have decided to challenge the allocation of costs for Keydata Investment Services Limited, and we are defending these proceedings. We are bound by the FSA rules under which we operate and take great care to allocate compensation costs correctly before raising levies.

As a whole, the industry recognises its obligation to fund the FSCS because it supports the principle that consumers should receive redress when a firm goes into default. We understand that firms find it frustrating when they have to contribute to the costs of failed firms. However, our primary duty is to pay compensation to those who qualify for our help.

We have clearly demonstrated that we can rise to the challenge of dealing with complex defaults and exceptional demands for compensation. We believe the very existence of the Scheme has played its part in helping to revive consumer confidence in financial services. This in turn will help to support a stable and profitable financial services industry. In order to build on this process, it is vital to raise consumer awareness of the FSCS and the protection available. We are developing a campaign for this purpose and will call on the industry to support us.

To deliver our wide-ranging programme of improvements, we also needed to make some changes internally. We agreed with the former Government that the FSCS governance and accountability arrangements have worked well. However, we decided (with the FSA's agreement) to give our Board a stronger executive presence, by increasing the number of executive directors from two to four. This will enhance the Board's ability to support our work in a fast-changing environment.

I would like to pay tribute here to Loretta Minghella OBE, who left the FSCS in February 2010 after being our Chief Executive for five years. I would like to thank Loretta, on behalf of all her colleagues, for her exemplary hard work, her steadfastness during some turbulent times and her remarkable good humour throughout. Loretta's OBE for services to the financial services industry was richly deserved, and we warmly congratulate her.

I also express my appreciation to Jonathan Clark, who made an invaluable contribution to the FSCS's response to the banking crisis as Director of Claims. Jonathan left in May 2009. Kate Williams and Richard Pratt also retired from their positions on the Board during 2009/10. They both made important contributions to the FSCS.

I would like to welcome Kate Bartlett, our new Director of Operations, and an executive Board member; and two non-executive Board members, Ivan Rogers and Philip Wallace.

In addition I would like to thank Alex Kuczynski, who was recently appointed as Director of Corporate Affairs, for acting as Interim Chief Executive until May 2010 when our new Chief Executive, Mark Neale, joined us from HM Treasury.

Thank you as well to all the FSCS staff for their hard work over the year. I am always impressed with their dedication and determination.

David Hall
Chairman

Section 2

Interim Chief Executive's Report – Alex Kuczynski

The FSCS spent the year addressing issues arising from the banking failures, Dunfermline Building Society, major investment defaults, product mis-selling and preparing to deal with the challenges ahead.

Alex Kuczynski

Overview of the year

We responded to a growing workload of investment and Payment Protection Insurance (PPI) mis-selling claims. Around two-thirds of the £204m we paid in compensation this year (excluding compensation payments relating to the banking failures) was for investment and PPI claims. These are complex claims and raised important issues for claimants and levy payers alike.

As the Chairman mentioned, we continued to work closely with the Tripartite Authorities to improve our operating structure, our governance and accountability, and our funding arrangements. To manage this work within the FSCS, we have implemented an internal improvement programme. This includes updating our systems and processes to speed up payouts, raise consumer awareness and develop a more flexible and scaleable business model. We remain committed to delivering an enhanced compensation scheme for consumers and the industry.

Update on the banking defaults

During 2009/10, we resolved many of the outstanding claims relating to the banking failures. We continued to pay compensation for fixed-term deposits as they matured, and we have now moved into the wind-down phase of this claims work. In total, we have now paid more than £23bn in compensation for the banking defaults, covering more than four million customer accounts.

We have validated the FSCS's contributions to the deposit account transfers from Bradford & Bingley plc, Heritable Bank Plc and Kaupthing Singer & Friedlander Limited.

We have also been pursuing recoveries to set against the principal amounts borrowed. In 2009/10, we received £1.06bn in recoveries from Heritable Bank Plc and Kaupthing Singer & Friedlander Limited. These recoveries have made a helpful reduction to the loans.

The timelines and amounts of recoveries from Bradford & Bingley plc and Icesave are less certain. Bradford & Bingley plc is in national ownership and, as a major creditor, we are working with UK Financial Investments Limited (UKFI) and Bradford & Bingley plc to understand the prospects for recoveries, and will provide updates to the industry as soon as possible. In respect of Icesave, the FSCS filed its claim in the winding-up proceedings. Although largely accepted, this was subject to challenge by other creditors and has now been referred to the Icelandic court process. We also supported the work of the Government in its negotiations with the Icelandic authorities, to seek to recover the compensation paid out by the FSCS and funded by HM Treasury.

The loans, which were funded initially by the Bank of England and refinanced shortly after by HM Treasury, were made on an interest-only basis for the first three years, calculated at 12 month LIBOR plus 30 basis points. 2009/10 was the second year of the arrangement. In July 2009, we announced a levy of £406m for interest covering the year 2008/09, which was paid by the Deposit class of levy payers. The current estimate for accrued interest costs for 2009/10 is £382.8m and includes interest of £34.4m attributable to 2008/09 following validations of the transfer payments. As with last year, these levies to relevant deposit-taking firms will be raised in the summer, for collection by 1 September 2010.

The outstanding principal of the loans, after taking account of amounts received in recoveries, is due to be repaid from 2012. We recognise that the industry will want to know as soon as possible when levies will be due, how much they will be and on which classes they will fall. A repayment schedule will be agreed with HM Treasury in the light of prevailing market conditions at that time. Work on this has already started and we will update the industry during the course of this year.

There is more information on the banking defaults on page 23.

Dunfermline Building Society

The passing of the Banking Act 2009 strengthened the UK's statutory framework for financial stability. The Act gives the Tripartite Authorities a range of tools under the Special Resolution Regime (SRR) to deal effectively with banks or building societies in financial difficulties.

As outlined in last year's Annual Report, the SRR powers in the Act were used to help more than 260,000 customers of Dunfermline Building Society. The depositors' accounts were transferred to the Nationwide Building Society on 30 March 2009. A £1.5bn payment was made by HM Treasury to fund the transfer of those liabilities that were not covered by assets that Nationwide acquired.

The financial markets have remained highly uncertain and we have seen a steep rise in claims...

The costs of the SRR will be funded by the FSCS, but will not exceed the amount the FSCS would have paid out in compensation (less recoveries) in the event of a liquidation. Following an amendment in the Financial Services Act 2010, these SRR costs will include interest at a rate of 4.5 per cent.

We will contribute to the SRR costs, after any recoveries that are made, at the end of the resolution process. As the resolution is not yet complete, we have not yet made any contribution or raised any levies for the costs. The latest indicators suggest that the costs of the resolution to be borne by the FSCS could be in the region of £400m. These costs will fall to the Deposit class. We will keep the industry updated once we know more.

Other main business of the year

Although our involvement with the banking failures continues to attract understandable interest, there have been no new major deposit failures. However, we have been busy with our work in other industry sectors within our business remit.

Investment claims

The financial markets have remained highly uncertain and we have seen a steep rise in claims against stockbroking firms after three high-profile investment firms were declared in default.

Pacific Continental Securities (UK) Limited and Square Mile Securities Limited were both declared in default in early 2009 and claims from these defaults continued to be received throughout the past financial year. The costs of these claims were in part funded by an interim levy of £38m in March 2009.

Keydata Investment Services Limited (Keydata) was placed into administration in June 2009. Since then there has been a range of complicated legal issues to resolve the precise type and nature of Keydata's products and the compensation which the FSCS can provide.

There are multiple categories of claims, which we have to deal with on a case-by-case basis. We have made significant progress and have been able to resolve a large number of claims. We are aware that investors are anxious to know whether the FSCS is able to compensate them for all Keydata products. We are committed to keeping investors informed about any developments which may affect their claims by updates on our website and through the media.

Structured products
Another area of activity over the past year related to firms specialising in structured investment products.

The majority of these claims arose following the defaults of NDF Administration Limited, Defined Returns Limited and Arc Capital & Income Plc. The products were exposed to the failure of the Lehman Brothers Group in 2008. We were able to review the product materials and determine the appropriate claim process for a large number of claims. So far we have received more than 1,250 claims and resolved close to 1,000.

Payment Protection Insurance mis-selling claims
We experienced a significant increase in PPI claims during 2009/10, receiving more than 2,000 claims. This is a growing area of our business. It features prominently in the current financial year and is likely to feature next year.

PPI claims present their own set of challenges. For example, they may relate to events and transactions that happened years ago and those involved in the alleged mis-selling may have long since moved on. We also rely particularly on third parties for information to assess claims, and I would like to thank those firms which have supported us by providing us with loan balances and claims details for this purpose.

Insurance claims
Insurance claims remain an area of continuous activity, although there have been no significant new failures. Claims related mainly to Chester Street Insurance Holdings Limited and Independent Insurance Company Limited, as well as a number of claims relating to Builders Accident Insurance. There are a significant number of claims on hold, pending a court judgment relating to employers' liability insurance, which could become payable in 2010/11.

Levies and the funding review

We appreciate that the levies can come at a difficult time for many firms, particularly in tough market conditions.

Claims are assessed on a case-by-case basis. This provides reassurance for the claimants and for the levy payers. To be eligible for compensation, an investor must be owed a legal liability by the failed firm. This requires close factual and legal scrutiny, which can take time.

In order to fund the high compensation costs involved with the investment claims, we issued an interim levy of £80m in March 2010. This was largely to cover compensation costs for claims against Keydata, Pacific Continental Securities (UK) Limited, Square Mile Securities Limited and the three firms specialising in structured investment products mentioned above.

...The notion of 'protection' on its own is not enough. Consumers need to be confident that the FSCS can deliver compensation...

Under our funding rules, there are levy limits for each class and sub-class of levy payer which are set by the FSA. The total levy on the Investment Intermediation sub-class included £98m for compensation costs. However, we also raised funding for £12m of management expenses for these claims, which are subject to a separate annual FSCS limit. We believe that the decision to allocate the costs of Keydata to the Investment Intermediation sub-class was consistent with our rules and we are defending judicial review proceedings on that basis, but we do understand that these costs have intensified the discussions about the FSCS's funding. (See pages 124–127 for an explanation of classes and sub-classes.)

This debate was given an added impetus by the banking failures and the FSA is reviewing the FSCS funding model. We urge all firms with an interest in this area to participate in the consultation.

We did not need to raise an interim levy on the other classes in 2009/10, and we were able to roll over the costs of PPI claims into 2010/11. We have set the annual 2010/11 levy in the usual way – allowing for claims we have received, or can expect to receive – but we have not made funding provisions for new (as yet unknown) failures in the year. Despite the unexpected level of activity, we have managed to keep the costs for our management expenses within budget.

The costs to levy payers are mitigated by recoveries. We have a duty to pursue recoveries and do so vigorously wherever practicable. We work closely with liquidators and administrators of the failed firms, including sitting on creditors' committees, and pursue third parties in order to maximise the amount of recoveries we receive.

Our future model

The experience of the past two years has not only changed the financial services industry, it has changed the FSCS as an organisation. Our role helps to address concerns about consumer protection and supports consumer confidence and financial stability. However, the notion of 'protection' on its own is not enough. Consumers need to be confident that the FSCS can deliver compensation more quickly than in the past, which in turn means that the FSCS needs to respond to increasing claims volatility and complexity in new and innovative ways, while being efficient and transparent.

One of the results of the banking crisis was a review of our relationships with the Tripartite Authorities. In addition to the changes to the Board described by the Chairman, we are working on an updated framework for our relationships with the Tripartite Authorities.

The reforms in the Banking Act 2009 have allowed us to work on improvements to the way in which we deliver compensation to consumers.

Faster compensation payouts

Consumers are far more aware of the risk of failure than they were before the banking crisis and their expectations are increasing as well.

The reforms in the Banking Act 2009 have allowed us to work on improvements to the way in which we deliver compensation to consumers.

From January 2010, all FSA-regulated firms which accept deposits have had to provide information to their customers explaining that their deposits are protected by the Scheme.

From January 2011, when a deposit-taking firm fails, compensation payments to consumers are to take place within a working target of seven days and in no more than 20 working days. To help us achieve this, all firms are required to be able to provide the FSCS with a 'Single Customer View' (SCV). Firms with a customer base of more than 5,000 accounts held by eligible depositors have to ensure that they are able to deliver an electronic SCV. An SCV contains essential customer details in a transferable format that can be processed by the FSCS. In particular, the SCV gives us an aggregate sum of deposit balances for each depositor, which we require to make faster payouts. We have been working closely during the year with deposit-taking firms and trade bodies on the SCV requirements.

Internally, systems and procedures are being developed to enable us to meet the timescales for faster payout. In the first part of 2011, we will be verifying sample SCV files from all deposit takers subject to the electronic SCV requirements, to ensure that they are compatible with the FSCS systems. This has required detailed attention and work will continue during 2010/11.

Our experiences have highlighted how important it is for the FSCS to be able to operate swiftly in the fast-changing and uncertain financial environment. During the year we continued our business contingency planning to ensure that we are better prepared to deal with any future failures. We have concentrated on our internal planning process, as well as working with the Tripartite Authorities to make sure that our plans are as robust as possible.

Building consumer awareness

Our work is consumer-led and, to respond to growing expectations, we have started our programme to improve awareness of the FSCS with consumers.

The programme is being developed across two phases:

- tell consumers about the FSCS through general awareness raising; and
- provide more specific information to educate consumers about the detail of the protection the FSCS offers.

We will launch the programme early in 2011. We have set up an Advisory Panel to act as a consultative forum to help shape our work. The panel includes representatives from the financial services industry, the FSA Consumer Panel and *Which?*.

We know that continuing involvement and support from our industry stakeholders is essential, and we shall be working with them more closely to promote awareness of the FSCS. We firmly believe that this strategy will benefit the financial services industry by helping to strengthen consumer confidence.

A broader role outside the UK

The Financial Services Act 2010 makes provision for the FSCS to take on a broader responsibility internationally. We can have an explicit role to deliver compensation to UK customers on behalf of schemes in other countries. The FSCS (and UK levy payers) would not be expected to bear any costs that arose from this work, as funds would be provided by the other countries' compensation schemes.

In common with the industry, we welcome these provisions in the Act and believe that they will benefit consumers in the UK by making it easier for them to claim without having to apply to a scheme in another country.

In order to support our new role, to share best practice and to contribute to the debate on consumer protection, we work closely with our counterparts in Europe and around the world. We participate in the work of the European Forum of Deposit Insurers and the International Association of Deposit Insurers.

Our staff

During a period of such unprecedented change for the FSCS, it has been most reassuring to have had the support of our staff. The past year has shown that the FSCS has continued to be able to respond effectively and efficiently to fluctuating volumes of complex claims. I thank our staff and our outsourcing teams for their hard work and commitment to consumers and stakeholders alike over the past year.

Alex Kuczynski
Interim Chief Executive

Section 3

Update on the Banking and Building Society Defaults

The FSCS was instrumental in safeguarding the deposits of more than four million customer accounts following the defaults of five banks and one building society in 2008/09.

These were:

- Bradford & Bingley plc (B&B);
- Kaupthing Singer & Friedlander Limited (KSF);
- Heritable Bank Plc (Heritable);
- Landsbanki Islands hf (Icesave);
- London Scottish Bank Plc (London Scottish); and
- Dunfermline Building Society.

The banks are collectively referred to in our Annual Report and Accounts as Specified Deposit Defaults (SDDs).

Dunfermline Building Society was the first to be dealt with under the Special Resolution Regime (SRR) that was introduced in the Banking Act 2009. There is more information on Dunfermline Building Society in this section.

Update on the compensation paid to consumers

The FSCS has now paid out compensation in respect of the SDDs of £23.6bn, of which £20.3bn was paid on its own behalf and the remaining £3.3bn was paid on behalf of HM Treasury. During 2009/10 we continued to make very good progress in clearing outstanding claims and paying compensation on fixed-term deposits as they matured. Compensation for such deposits will continue to be payable until 2013.

As we explained in last year's Annual Report, we contributed by way of deemed compensation to the funding required to transfer the accounts of depositors from B&B to Abbey (now Santander) and from Heritable and KSF to ING.

What is deemed compensation?

When B&B, Heritable and KSF failed, initial payments were made by the FSCS to fund the transfer of depositors' accounts to Abbey and ING. These initial payments reflected the estimated amounts that were payable to eligible claimants who, under the FSCS rules, were:

- deemed to have made an application for compensation from the FSCS;
- deemed to have accepted an offer of compensation; and
- deemed to have received a compensation payment.

As the accounts were transferred in bulk, the usual application, offer and payment process for each eligible claimant was unnecessary for some four million deposit account holders. However, because the bulk payments were also only best estimates, the FSCS was obliged by law to validate the amounts and make any necessary adjustments in due course.

Validating the deemed compensation

The FSCS's initial contributions of £14bn, £0.5bn and £2.5bn respectively to B&B, Heritable and KSF represented the Financial Services Authority's estimates of the deemed compensation.

The final validation of these amounts has now been agreed with HM Treasury in the sums of:

- B&B – £15.65bn;
- Heritable – £457m; and
- KSF – £2.52bn.

The compensation liabilities are set out in the table on page 23. Estimates for interest are in Section 8 on pages 92, 96 and 97.

The FSCS and HM Treasury have also agreed the amount of additional borrowings. Further interest costs, to be funded through levies on the Deposit class, will be confirmed and levied this summer. These are payable by 1 September 2010 for settlement with HM Treasury on 1 October 2010.

Cost of funding the banking failures

The FSCS continues to have significant borrowings in the form of loans from HM Treasury to cover the costs of the compensation (including the deemed compensation) that has been paid for the banking failures.

The interest on the existing loans is calculated at 12 month LIBOR plus 30 basis points, adjusted monthly. The interest payable on the loans during the year amounted to £348.4m, compared with £426.5m in 2008/09. This reduction was mainly because of significantly lower interest rates in 2009/10 and the recoveries received from KSF and Heritable.

The interest on these SDD-related borrowings is classed as a 'specific' cost within the FSCS's management expenses, which means that the interest payments are funded through levies to those firms in the class in which the defaults arose, namely the Deposit class. There is more information about how we are funded on page 132 of Section 10.

Recoveries from the banking failures

Recoveries from the banking failures will help reduce the costs to the industry, and we have continued to work with the relevant insolvency practitioners and HM Treasury during the year to make sure that we achieve the maximum amount of available recoveries.

During 2009/10, the FSCS received recoveries relating to the SDDs totalling £1.06bn in the form of dividend payments from two of the banking failures, namely:

- £0.16bn from Heritable; and
- £0.90bn from KSF.

We also pursued claims to funds held in a trust account set up by KSF. Any further recoveries will be allocated appropriately between the FSCS and HM Treasury accounts for the compensation payments.

B&B was the largest of the banking failures and is in public ownership. It continues to run-off its existing mortgage assets. Although the precise timing remains highly uncertain, and could be over many years, the B&B management has forecasted a full recovery of the principal amount of the FSCS contribution in due course. We are closely monitoring the situation and reviewing progress with HM Treasury and UK Financial Investments Limited (UKFI), which was set up to manage the Government's investments in financial institutions. When the position becomes clearer, we will report to levy payers.

Prior to 2012, the overall position on all the SDD recoveries will be reviewed. Any unrecovered and/or unrecoverable principal amounts will be assessed for repayment on a timetable which will be agreed by the FSCS and HM Treasury in the light of market conditions at the time. Until such a repayment timetable is agreed, it is not yet possible to say which levy class or classes will be levied for any outstanding principal. We will keep our levy payers fully updated on any developments.

Update on Dunfermline Building Society

As we outlined in last year's Annual Report, Dunfermline Building Society (DBS) was the first deposit taker to be taken into the SRR that came into force under the Banking Act 2009. In brief, the FSCS expects to contribute to the cost of resolution, but not more than we would otherwise have paid had DBS failed and gone into insolvency.

HM Treasury has appointed an independent valuer to work out what recoveries the FSCS would have received had there been a payout by the FSCS to DBS's 260,000 depositors in an insolvency. The FSCS figure for the total amount of the protected deposits, less the valuation of the total FSCS recoveries, in an insolvency, will provide the cap on the FSCS contribution. Following an amendment in the Financial Services Act 2010, the FSCS will fund the interest costs on the Authorities' running costs of the resolution of DBS at a standard rate of 4.5 per cent. Based on the best information available to the directors, the FSCS is making a provision of £400m in respect of the DBS resolution for the year ended 31 March 2010. This includes an estimate of interest to date. For further information see Section 8.

The update table on the banking and building society defaults

The following table includes:

- compensation paid to 31 March 2010;
- the latest position on our work to validate the amounts the FSCS paid to support the bulk transfer of deposit accounts from B&B, KSF and Heritable to other banks;
- the position on our work to validate amounts to support the bulk transfer of accounts from DBS to the Nationwide Building Society; and
- the recoveries we have made or that we anticipate we will make.

Update on the Banking Defaults and Dunfermline Building Society

Firm	B&B	Heritable	KSF	Icesave	London Scottish	Dunfermline Building Society
Date of default/ insolvency	27 September 2008	7 October 2008	8 October 2008	8 October 2008	30 November 2008	30 March 2009
Number of customer deposit accounts at default	All c.3.6m accounts transferred to Abbey	22,344 accounts transferred to ING; 422 not transferred	c.157,000 accounts transferred to ING; 7,236 not transferred	298,290 (no accounts transferred)	11,950 (no accounts transferred)	c.260,000 accounts transferred to Nationwide Building Society
Initial estimate of deemed compensation amounts which the FSCS has contributed to the costs of transferring deposit accounts	£14bn	£500m	£2.5bn contributed by the FSCS to cost of transfer, less a repayment of £266.5m on 30 March 2009	N/A (no accounts transferred)	N/A (no accounts transferred)	The FSCS contribution will be net, i.e. the costs of resolution are to be calculated only after the level of recoveries is known
Validation of the FSCS deemed compensation amounts for transferring deposit accounts	£15.65bn	£457m	£2,514m	N/A (no accounts transferred)	N/A (no accounts transferred)	In progress. The FSCS contribution will be net. A provision of £400m has been made in the year ended 31 March 2010. This includes estimated interest
Number of accounts transferred and/or paid at 31 March 2010	All c.3.6m accounts transferred to Abbey in September 2008	22,344 accounts transferred to ING Direct in October 2008 Plus 340 accounts paid	c.157,000 accounts transferred in October 2008 Plus 6,822 accounts paid	292,579 accounts paid	8,291 accounts paid	c.260,000 accounts transferred to Nationwide Building Society in April 2009
Value of accounts paid at 31 March 2010 (Note 1)	N/A	£8.1m £7.4m FSCS £0.7m HMT	£342m £65.9m FSCS £276.4m HMT	£4.41bn £2.24bn Iceland DIGF* £1.40bn FSCS £0.77bn HMT	£191m £170m FSCS £21m HMT	N/A
Number of accounts yet to be paid (Note 2)	N/A	3 accounts (Note 4)	71 accounts (Notes 3 and 4)	3,897 accounts (Notes 3 and 4)	3,566 accounts (Notes 3 and 4)	N/A
Estimated value of accounts yet to be paid (Notes 1 and 2)	N/A	£83k £50k FSCS £33k HMT	£16.2m £1.56m FSCS £14.65m HMT (Note 3)	£99.2m £35.1m Iceland DIGF* £43.8m FSCS £20.3m HMT (Note 3)	£78.3m £67.5m FSCS £10.8m HMT (Note 3)	N/A
Estimated total value of compensation liability/cost to FSCS, before recoveries	£15.65bn (deemed)	£464m (£457m deemed) (£7m paid direct)	£2,582m (£2,514m deemed) (£68m paid direct)	£1,444m (paid direct)	£237m (paid direct)	N/A
Recoveries as at 31 March 2010	N/A	Received three dividends totalling 35% and amounting to approximately £162m	Received three dividends totalling 36% and amounting to approximately £896m	N/A	N/A	N/A
Prospects for future recoveries	B&B's management forecast repayment of the FSCS loan in due course but precise timing remains uncertain. We are working with UKFI and HMT on this issue	A further interim dividend is expected in summer 2010. Anticipated total dividend: 79% to 85%	A further interim dividend is expected in summer 2010. Anticipated total dividend: 65% to 78%	Uncertain – pending Icelandic court ruling	Anticipated total dividend: 30% to 60%	Recoveries are paid to HMT and the FSCS contributes to the shortfall

Note 1: Includes amounts paid on behalf of HM Treasury (HMT) and, in the case of Icesave, Iceland's Depositors' and Investors' Guarantee Fund as well as compensation under the FSCS rules.

Note 2: Includes some accounts where an application form has yet to be received by the FSCS.

Note 3: Includes fixed-term deposits that are due to be paid at maturity.

Note 4: The difference between the paid, outstanding and overall figures are the deposit accounts where no valid claim has been made.

* Iceland's Depositors' and Investors' Guarantee Fund

Section 4

Delivering Compensation to Consumers

During 2009/10 we faced a number of significant issues in delivering compensation to consumers.

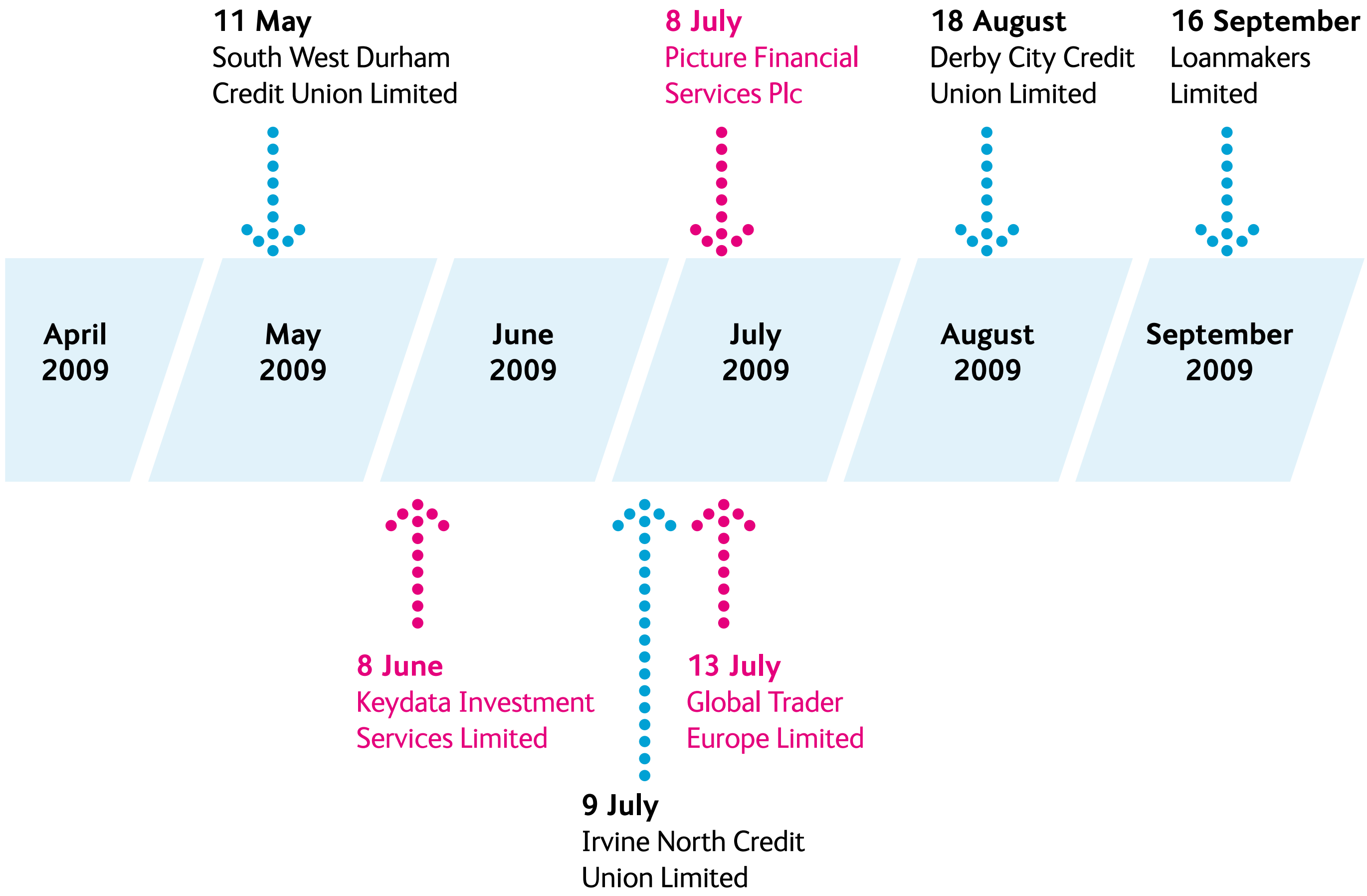
Our work during the year was heavily influenced by Keydata Investment Services Limited and various structured product providers that failed. This meant that 60 per cent of new claims were in the Investment Intermediation sub-class for funding purposes.

Eight per cent of new claims related to the mis-selling of Payment Protection Insurance (PPI), which is part of the General Insurance Intermediation sub-class.

We also continued to receive some new claims (eight per cent) relating to Mortgage Endowments (part of the Life and Pensions Intermediation sub-class), although we are pleased to report that their volumes are declining compared with previous years, as are the numbers of claims relating to Split Capital Investment Trusts.

Alongside our work during 2009/10 to deliver compensation, we also focused on establishing a sound infrastructure to enable us to make faster compensation payouts to consumers from the start of 2011.

A timeline of the significant failures of the year

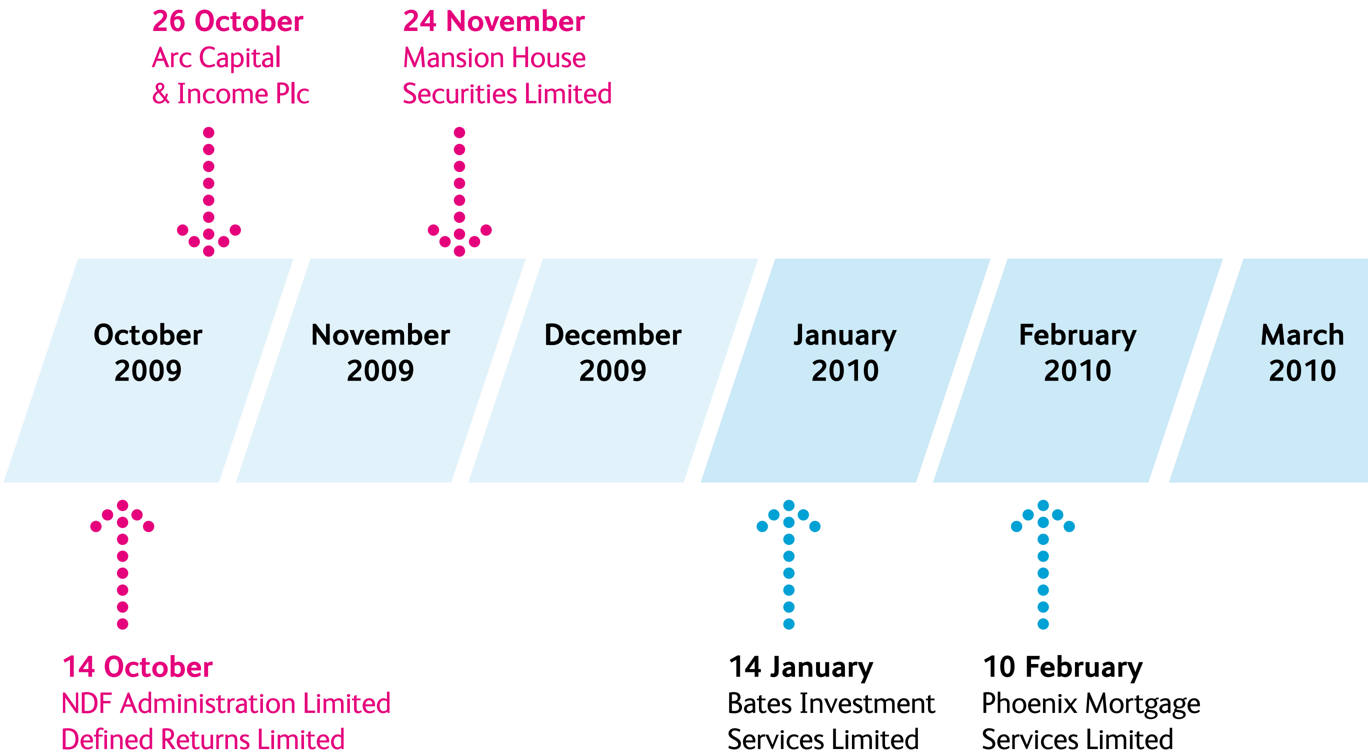


Summary of claims by funding class or sub-class

Please note that the table below does not include the main banking or building society defaults. There is a separate update on these on page 23.

Ref		Claims received 2009/10	Claims completed 2009/10
SA01	Deposit	1,112	1,105
SB02	General Insurance Intermediation	2,513	1,831
SC01	Life and Pensions Provision	4	4
SC02	Life and Pensions Intermediation	3,427	3,433
SD01	Investment Fund Management	65	124
SD02	Investment Intermediation	24,301	15,188
SE02	Home Finance Intermediation	170	117
Total claims		**31,592**	**21,802**
SB01	General Insurance Provision	See note*	14,958

* Insurance claims are usually handled by the appointed run-off agent and then presented to the FSCS for checking and payment.



Performance against our service standards

Once we have established that a claim may be within our remit, we will send out an application form.

- During 2009/10, we sent application forms out within five working days in at least 90% of cases. The average time taken to respond to requests for application forms was four days.
- We aim to complete 90% of most new claims within six months of receipt of a claim where a firm is in default. With credit union claims, we aim to complete 90% of new claims within eight weeks of receipt of a claim where a credit union is in default.
- Across all claims areas, 92% of claims were completed within the required time for the claim type.

Deposit class (SA01)

The majority of claims in this class during 2009/10 came from credit unions. Eight credit unions were declared in default during the past year, compared with three in 2008/09.

Class totals (excluding the banking defaults and Dunfermline Building Society)

- 1,112 new claims were received in 2009/10, compared with 603 in 2008/09.

- 1,105 claims were completed in 2009/10, compared with 659 in 2008/09.
- More than 93% of claims resulted in an offer of compensation, similar to 94% in 2008/09.
- The average compensation payment for this sub-class was £881, with the average compensation payment for credit unions being £368.
- More than 85% of claims received were completed within the service standard of eight weeks, similar to 86% in 2008/09.

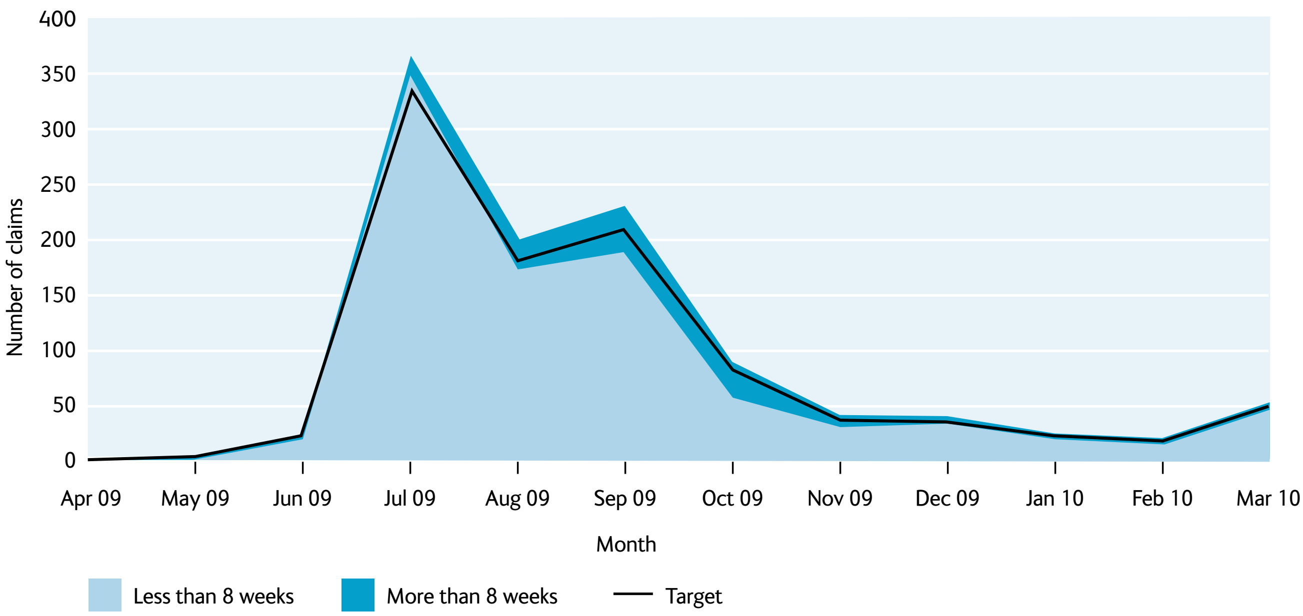
General Insurance Provision (SB01)

There were 14,958 compensation payments in 2009/10, a substantially higher number compared with 2008/09 when there were 8,890. Compensation payments totalled £60.2m.

Sub-class totals

- The largest spend was for employers' liability insurance policies issued by Chester Street Insurance Holdings Limited. The compensation costs of this estate for 2009/10 stand at £39.1m, which is slightly lower than £40.3m in 2008/09.
- The increase in total spend from £50.8m in 2008/09 to £60m in 2009/10 is substantially attributed to the settlement of one large professional indemnity claim across three older estates: English & American Insurance Company Limited, Bermuda Fire & Marine Insurance Company Limited and North Atlantic Insurance Company Limited. The new failure of Aldgate Insurance Company Limited cost just in excess of £1m.

Deposit turnaround time



- There were increased numbers of payments because of the reimbursement of individual claim defence costs on Chester Street Insurance Holdings Limited.

General Insurance Intermediation (SB02)
We have seen a steep increase this year in new claims, largely related to PPI. The initial influx of these claims took some time to complete as there were a number of technical issues to determine. We worked to resolve these issues and establish an effective claims process. However, the completion of claims very much depends on us receiving information from third parties in a timely way.

Sub-class totals
- 2,513 new claims were received in 2009/10, compared with 740 in 2008/09.
- 1,831 claims were completed in 2009/10, compared with 150 in 2008/09.
- Of the total new claims received, 2,411 related to PPI and 908 of these related to one firm, Picture Financial Services Plc.
- 102 of the new claims received were for other types of insurance intermediation claims, compared with 205 in 2008/09. These included claims relating to employers' liability and public liability insurance. Of the total, 60% of claims resulted in an offer of compensation. The average compensation paid was £1,152.
- Of the PPI claims received, 1,645 were completed and 89% of the claims resulted in an offer of compensation. The average compensation paid was £8,540.

Life and Pensions Provision (SC01)
Very few claims arose in this area of our work during 2009/10.

Sub-class totals
- Four claims were made in respect of Oaklife Assurance Company Limited, three of which have been paid. There were no claims in 2008/09.
- Compensation payments totalled £7,396.

Life and Pensions Intermediation (SC02)
This sub-class mainly comprises Mortgage Endowments, Pensions Review and Free Standing Additional Voluntary Contribution claims (FSAVCs). We saw fewer claims in this sub-class during 2009/10 compared with 2008/09.

Sub-class totals

- 3,427 claims were received during 2009/10, compared with 4,634 in 2008/09.
- 3,433 claims were completed during 2009/10, compared with 5,987 in 2008/09.
- 52% of claims resulted in an offer of compensation.
- The average compensation payment was £6,858.

Mortgage Endowments

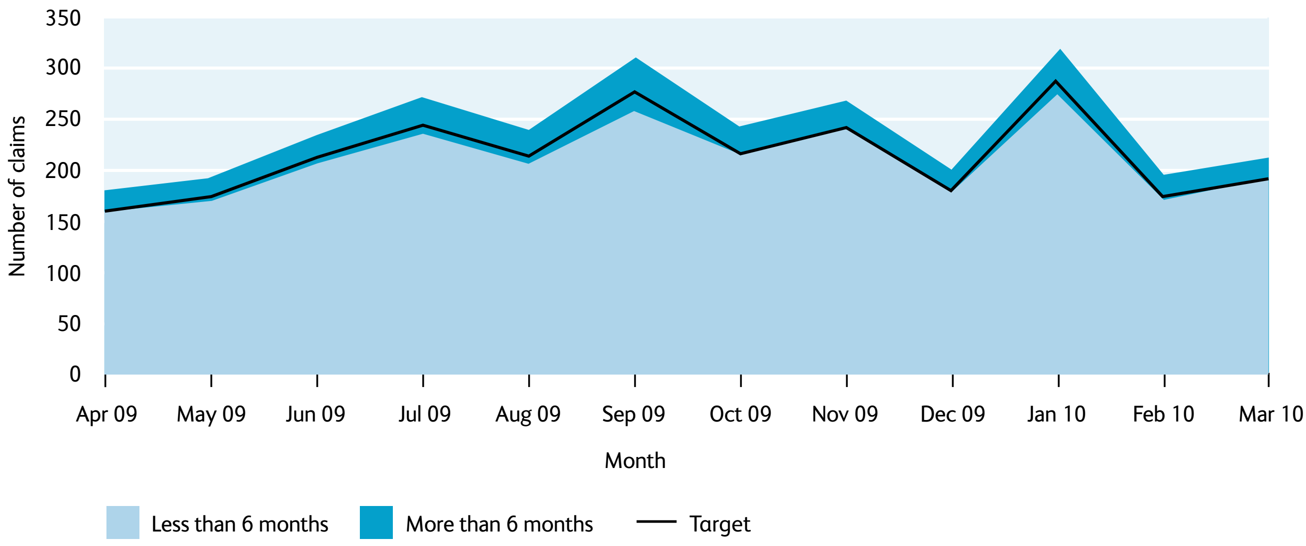
- 2,673 new claims were received during 2009/10, compared with 3,819 in 2008/09, a reduction of 30%.
- 2,845 claims were completed during 2009/10, compared with 4,974 in 2008/09, a reduction of 43%.
- 54% of claims resulted in an offer of compensation.
- The average compensation payment was £2,802.
- 88% of claims were completed within six months of receipt of an application form, against a service standard of 90%.

During the year a greater focus was placed on reducing the number of old claims in progress and a significant reduction was achieved. However, this had a slight impact on the average claim turnaround time.

Pensions Review and FSAVCs

- 221 claims were received during 2009/10, compared with 313 in 2008/09, a reduction of almost 30%. This is in line with our expectations for this declining workstream.
- 199 claims were completed during 2009/10, compared with 428 in 2008/09, a reduction of over 50%.
- 82% of Pensions Review claims resulted in an offer of compensation, as did 69% of FSAVC claims.
- The average Pensions Review compensation payment was £26,159.
- The average FSAVC compensation payment was £7,094.

Mortgage Endowments turnaround time



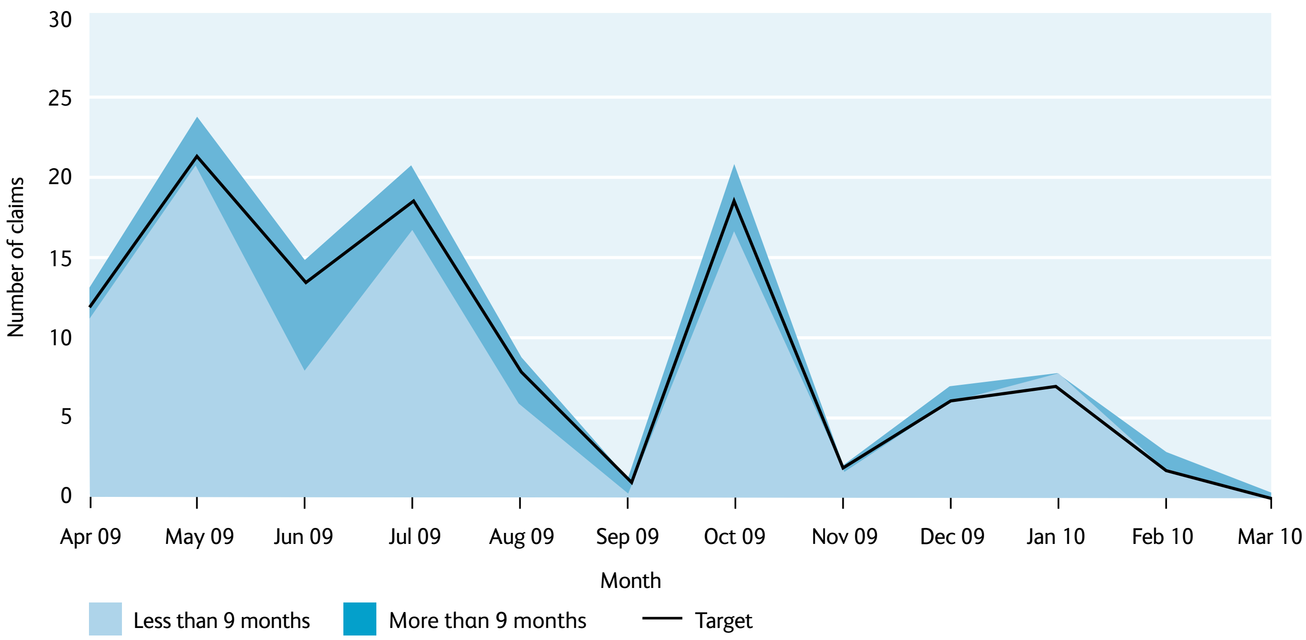
Investment Fund Management (SD01)

Claims in the Investment Fund Management sub-class relate to Split Capital Investment Trusts (splits). Some splits claims also fall into the Investment Intermediation sub-class (SD02).

Sub-class totals

- 65 claims were received during 2009/10, compared with 848 in 2008/09.
- 124 claims were completed during the year as the splits workstream comes to an end, compared with 2,664 in 2008/09.
- 55% of claims received an offer of compensation.
- The average compensation payment was £11,613.
- 79% of completed claims were within the agreed service standard. This was because we had to process a number of older and more complex claims which required a significant amount of work to bring to a conclusion.

Investment Fund Management turnaround time



Investment Intermediation (SD02)

Much of our work during 2009/10 involved high volumes of claims arising from defaults in this sub-class, many of which were extremely complex.

A substantial number of claims were made against Pacific Continental Securities (UK) Limited and Square Mile Securities Limited. Three firms providing structured products were also declared in default during 2009/10, giving rise to over 1,200 claims between them.

However, the biggest default in 2009/10 was Keydata Investment Services Limited, resulting in over 17,500 claims.

Sub-class totals

- 24,301 claims were received during 2009/10, compared with 4,170 in 2008/09. The significant increase is attributable to the high volume of claims we received as a result of the Keydata Investment Services Limited default. At the same time, claims against Pacific Continental Securities (UK) Limited and Square Mile Securities Limited continued in similar volumes to 2008/09.

- 15,188 claims were completed during 2009/10, compared with 1,372 in 2008/09.

- 90% of claims resulted in an offer of compensation.

- The average compensation payment was £10,799.
- 96% of claims met the service standard.

The larger components making up claims in this sub-class are set out in more detail below:

Pacific Continental Securities (UK) Limited

- 2,465 claims were received during 2009/10, compared with 2,411 in 2008/09.
- 3,900 claims were completed during 2009/10, compared with 888 in 2008/09. The increase is because the default was declared in 2008/09, which meant that the majority of claims were settled in 2009/10.
- 90% of claims resulted in an offer of compensation.
- The average compensation payment was £11,444.
- 93% of claims met the service standard.

Square Mile Securities Limited

- 1,064 claims were received during 2009/10, compared with 1,369 in 2008/09.
- 2,252 claims were completed during 2009/10, compared with 193 in 2008/09. Again, the difference is because of the default being declared late in 2008/09.
- 95% of claims resulted in an offer of compensation.
- The average compensation payment was £9,766.
- 92% of claims met the service standard.

Firms providing structured products

In October 2009, three structured product firms were declared in default: NDF Administration Limited, Defined Returns Limited and Arc Capital & Income Plc. All three had promoted structured products which were exposed to the failure of the Lehman Brothers Group in 2008.

- 1,288 claims were received during 2009/10.
- 999 claims were completed during 2009/10.
- 99% of claims resulted in an offer of compensation.
- The average compensation payment was £15,841.
- 100% of claims met the service standard.

Keydata Investment Services Limited (Keydata)
This default was new in 2009/10. No claims were received in 2008/09. The FSCS has dealt with two main categories of claims:

- Category One: Keydata funds backed by SLS Capital SA.
  Investors in the Keydata Secure Income Bond issues 1, 2 and 3 have been told by the administrators that the assets underlying their funds have been misappropriated, apparently by a third party not directly connected to Keydata. It has also been confirmed that the funds, which had been promoted as being eligible for inclusion in an ISA, were not in fact ISA eligible.
  - 4,841 claims were received during the year.
  - 3,595 claims were completed during the year.
  - 91% of completed claims resulted in an offer of compensation.
  - The average compensation payment is £9,823.
  - 100% of claims met the service standard.
- Category Two: Keydata funds backed by Lifemark SA, confirmed as being non-ISA eligible.
  - 12,922 claims were received during 2009/10.
  - 3,194 claims were completed during 2009/10.
  - 86% of completed claims resulted in an offer of compensation, meaning that the claimant is eligible and that the FSCS will meet the tax liability when it arises. At this point, the FSCS will pay compensation direct to HM Revenue & Customs, avoiding the need for the individual to settle the tax liability themselves.
  - 100% of claims met the service standard of six months.
  - We are aware that there are many Lifemark investors who may have suffered loss in addition to the tax liability. We are continuing to investigate these issues.

Other Investment Intermediation claims
A number of other Investment Intermediation claims were received against various smaller defaults. These included share mis-selling claims against Mansion House Securities Limited, Ascension Securities Limited and White Square Investments Limited; claims for the return of cash and assets held by the derivative brokers Global Trader Europe Limited and Echelon Wealth Management Limited; and claims relating to negligent investment advice against various independent financial advisers.

Home Finance Intermediation (SE02)

We continued to see a steady increase in the number of new Home Finance Intermediation claims in 2009/10.

Sub-class totals

- 170 new claims were received during 2009/10, compared with 79 in 2008/09, an increase of 119%.
- 117 claims were completed during 2009/10, compared with 54 in 2008/09, an increase of 122%.
- 15% of claims resulted in an offer of compensation.
- The average compensation payment was £8,563.
- Claims are expected to continue to increase in volume in 2010/11.

Case study
William Gelley
Square Mile Securities Limited

In August 2003, retiree Mr Gelley was approached by a Square Mile Securities Limited (Square Mile) representative. Having previously owned privatisation shares which were successful, and impressed by the company's thriving portfolio, Mr Gelley decided to invest with them.

"I started by investing a lump sum I had received from retirement. I always monitor shares I buy and after three years of monitoring the share prices I realised the investments were not progressing nor had I ever received a dividend. I thought the best thing to do would be to sell the shares. I managed to get in touch with the company just before they collapsed and sold my shares at a substantial loss."

Mr Gelley's next communication regarding Square Mile was when he received a letter from the FSCS informing him that the company was in administration.

"When I received the letter from the FSCS telling me the firm was no longer trading, I was at a loss as to what to do. A wave of depression washed over me as I worried about the future and the impact the loss would have on my retirement.

"I was hugely relieved when I realised that the FSCS was able to help me. I was extremely pleased with my compensation as it was much more than I expected. I thought the firm would have to pay any creditors first, leaving very little for the shareholders. The FSCS was crucial to restoring me back to a comfortable retirement.

"Without the FSCS, I would have had to bear the full loss. I sincerely think that the Scheme is a great help to the small investor."

Section 5

Our Contact with Consumers

We handle an extremely varied range of telephone, email and written enquiries from consumers every day.

During 2009/10 we handled nearly 96,000 enquiries covering:

- potential claims;
- distributing and receiving application forms;
- complaints;
- Parliamentary correspondence; and
- general enquiries about all aspects of our work.

We appreciate that when a firm is declared in default, it can be a stressful time for consumers. We want to make the claims process as clear and straightforward as possible. During 2009/10 we introduced a number of improvements, including:

- streamlining the payment process so consumers are paid more quickly. The terms of any potential compensation offer are now incorporated into the application form itself rather than being sent out separately in an offer letter. If we can pay compensation, we will send a payment when that decision is reached;
- relaunching our website so it is much easier for consumers to navigate and find the relevant information they need, including how to make a claim;
- introducing an 0800 telephone number to make it easier for consumers to contact us free of charge; and
- building a more robust telephone infrastructure to help us manage high volumes of calls efficiently and swiftly.

Case study
Bob Hart
Senior Claims Officer, Customer Services Team

Bob Hart explains what it takes to be a member of the FSCS's Customer Services Team.

"Our work is incredibly varied and, at times, extremely complex. Team members do phone shifts, answer emails and write letters. Enquiries range from the straightforward 'What do I do next?' to asking us to explain an aspect of their case in more detail – this means we need to be able to help someone at any stage of the claims process.

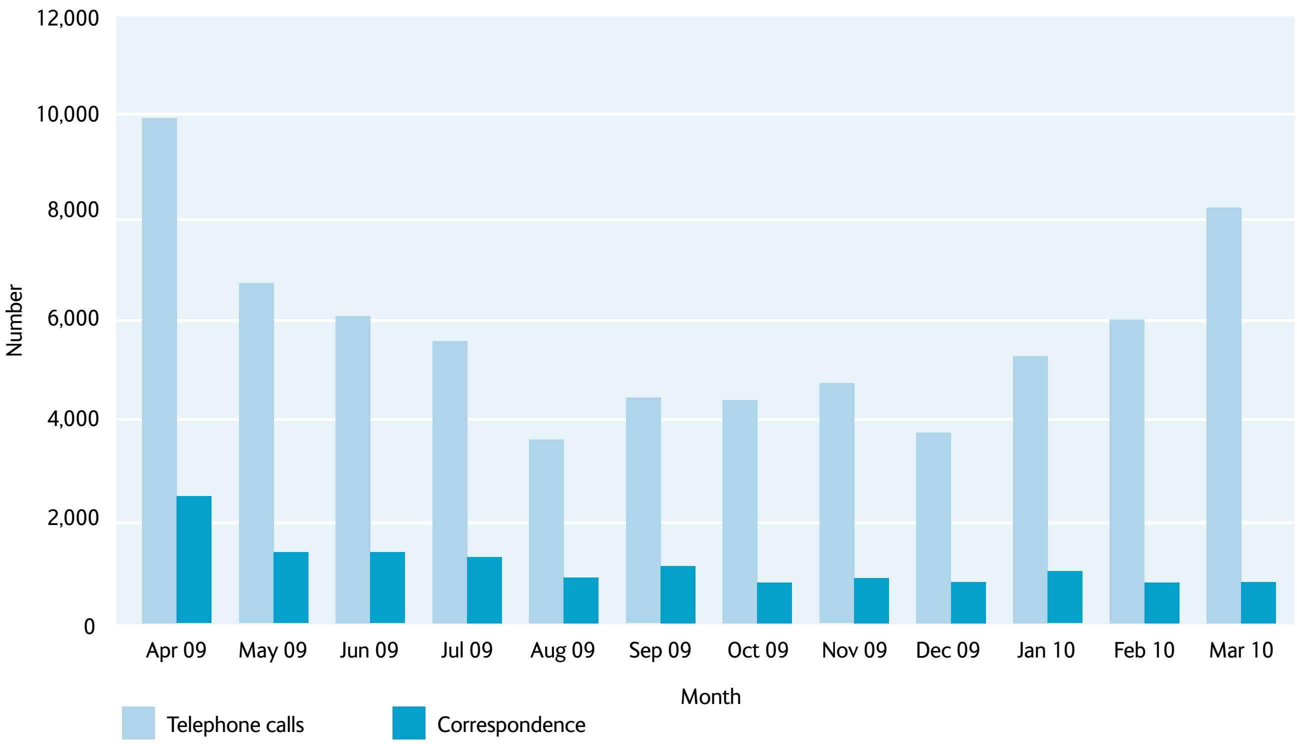
"At the moment we are a team of about 18 working on the phones and answering letters. We are getting a lot of letters about the Keydata default – the Keydata products are complicated and it is taking time to sort out the claims.

"Everyone on the team has a good grounding on the different products that we pay compensation on: from investments and deposits to insurance and endowments. My background as an Independent Financial Adviser for 20 years has certainly helped with that. Although we would never give advice about any of the products, we always aim to be sympathetic and clear.

"People's attitudes on the phone vary greatly: a lot of people are distressed; others are angry; sometimes people are in tears. People might have lost £30 from a credit union default and need the money for Christmas; others have lost tens of thousands.

"The job can be intense and, at times, you have to be quite thick-skinned. But it is always wonderful when you get a phone call from a customer who thought they had lost their money and then get compensated. A letter, phone call or email saying 'thank you' really makes everyone's day."

Telephone enquiries and correspondence month by month



Managing our enquiries

A total of 95,962 enquiries were received in 2009/10. This is 59% less than the exceptionally high figure of 234,300 in 2008/09, though still higher than the total for 2007/08 which was 73,500.

We handled 69,523 telephone calls in 2009/10, which is 58% less than in 2008/09.

We received 26,439 written enquiries in 2009/10, which is 62% less than in 2008/09.

Telephone enquiries and correspondence month by month

In 2009/10, our target was to respond to and resolve 90% of all telephone calls within 48 hours. This was achieved each month.

We aimed to resolve 90% of all written enquiries within 15 working days. This target was consistently achieved, except for two months at the start of the year when a large number of complex deposit-related queries were completed.

In 2010/11, the team is aiming to send replies to 90% of all written enquiries within 10 working days.

Parliamentary correspondence

We received 134 items of Parliamentary correspondence in 2009/10, six per cent less than in 2008/09. Of these, 127 items were received directly from MPs and covered a range of issues and types of claim. HM Treasury also referred seven items of Parliamentary correspondence to us.

Complaints

During 2009/10, we received a total of 420 complaints, an increase of 10% on 2008/09.

287 consumers complained about the decision made on their claim, while 133 made a complaint about the handling of their claim. This represents a change from last year, when there was a more even split between decision-based and handling complaints.

During 2009/10, 111 of the total complaints we received related to Deposit claims, 41% less than in 2008/09.

During 2009/10, there were 112 complaints from investors challenging the decision that had been reached on claims against Pacific Continental Securities (UK) Limited and Square Mile Securities Limited.

The number of complaints remains at less than one per cent of the total decisions made during 2009/10.

Report from the Independent Investigator

This report covers the period from 1 April 2009 to 31 March 2010.

My role is to review how the Scheme deals with claims. This review relates to how a claim has been dealt with by the Scheme having regard to its administrative and procedural aspects.

My investigation does not cover disagreements or disputes about the merits of a decision made on a claim itself. This is made very clear to claimants who ask for a complaint to be referred to me. Notwithstanding this, a high proportion of the complaints referred to me at a complainant's request seek to raise issues about the decision made on a claim to the Scheme. I make it clear to complainants that I will not adjudicate on such matters.

Having investigated a complaint, I provide a written report to the Scheme's Board, giving my findings in a case. Where I consider it appropriate arising out of the investigation of a complaint, I bring to the Board's attention broader issues that the Board may wish to consider.

A copy of my report is provided to the complainant and to the Board in every case I adjudicate upon.

I investigate complaints following internal review of the complaint by the Scheme under its complaints procedures.

In this reporting period, I investigated and reported on nine cases. I upheld one complaint in full, two in part, and found one complaint justified, noting the measures taken by the Scheme prior to the case being referred to me for adjudication. I did not uphold the other five complaints investigated. The Board accepted my recommendations in all cases.

In addition, I have made some observations for the Board to consider on any wider procedural aspects arising out of these cases which, in my view, the Board may want to consider in the future.

The cases referred to me for investigation should be seen in the context of the Scheme having dealt with some 31,592 claims received in the reporting period.

Having regard to this, the number of cases referred to me and where I uphold the complaint in full (one case) or in part (two cases) is a very small number.

John Hanlon
Independent Investigator

Section 6

Financial Summaries

This section looks at some of the important financial issues in 2009/10.

These issues include:

- a comparison of our actual management expenses against budget;
- the total compensation payments we made in respect of the different classes and sub-classes;
- the levies we received; and
- a summary of our recoveries.

Management expenses

Our Management Expenses Levy Limit (MELL) is set annually by the FSA after consultation. It limits the amount the FSCS can levy and spend on management costs without further consultation.

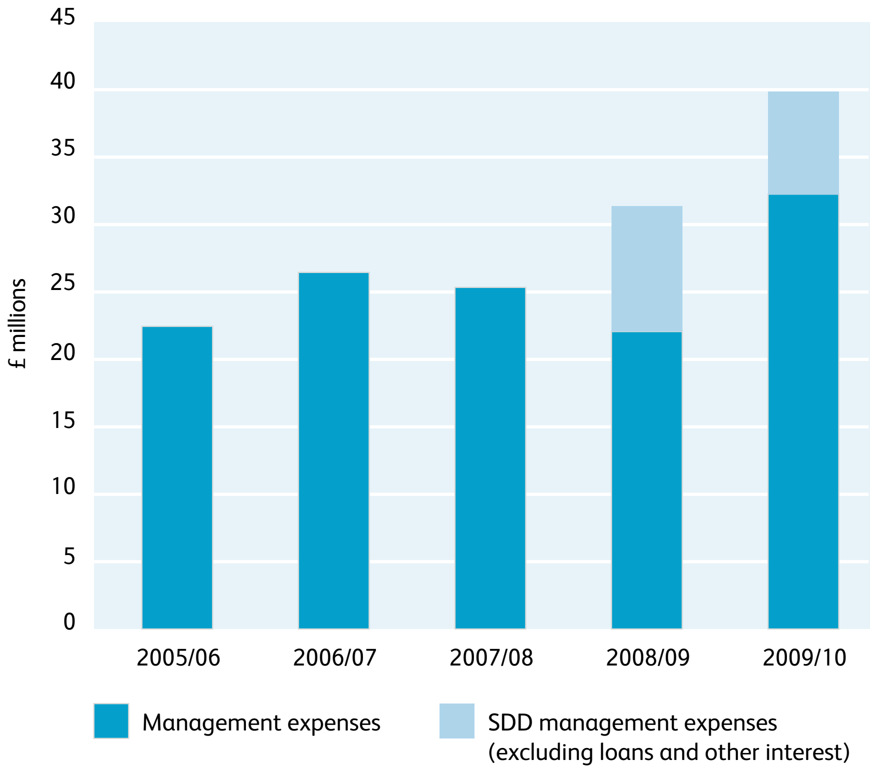
For more information on how the FSCS is funded see page 132.

The MELL for 2009/10 was set at £1bn, based on a forecast budget expenditure of £679.56m, plus a reserve contingency of £320.44m.

The total management expenses amounted to £388.44m. This includes loan interest payable of £344.33m, other interest payable of £4.11m, and management expenses (excluding interest) for 2009/10 of £40.00m.

References on these pages to SDDs are to the Specified Deposit Defaults, the five bank defaults in 2008/09.

Management expenses: 5-year trends



Management expenses: comparison of actual to budget

	2009/10 Actual £m	2009/10 Budget £m	Variance £m
Employment costs	10.49	12.70	(2.21)
Other staff costs	1.49	1.50	(0.01)
Total staff costs	**11.98**	**14.20**	**(2.22)**
Outsourcing	9.46	2.90	6.56
Other expenses	6.87	9.39	(2.52)
Sub-total management expenses excluding change programme and SDDs	**28.31**	**26.49**	**1.82**
Change programme, excluding consumer awareness programme	3.70	3.60	0.10
Consumer awareness programme	0.28	4.10	(3.82)
Sub-total operations and change programme expenses	**32.29**	**34.19**	**(1.90)**
SDD-related management expenses	7.71	13.37	(5.66)
Sub-total management expenses (excluding SDD interest)	**40.00**	**47.56**	**(7.56)**
SDD interest	348.44	632.00	(283.56)
Total management expenses*	**388.44**	**679.56**	**(291.12)**

- Total staff costs were under budget by £2.22m due to later than planned recruitment of additional and specialist staff.
- Outsourcing costs were £6.56m higher than budget due to the higher than anticipated volume of claims handled, in particular for Payment Protection Insurance and Keydata cases.
- Most of the £4.1m levied in 2009/10 for a consumer awareness programme has not been spent in 2009/10. Instead these funds are ringfenced and the bulk of the project's expense is expected to be incurred in 2010/11.
- SDD-related management expenses were £5.66m under budget. This is mainly due to a significantly more efficient method of validation of deemed compensation amounts than originally envisaged.
- SDD interest is under budget by £283.56m due mainly to actual interest rates being lower than budgeted.

* This is recoverable from classes and sub-classes as follows: interest payable £348.44m, base cost element of management expenses £11.15m and the remaining management expenses £28.85m.

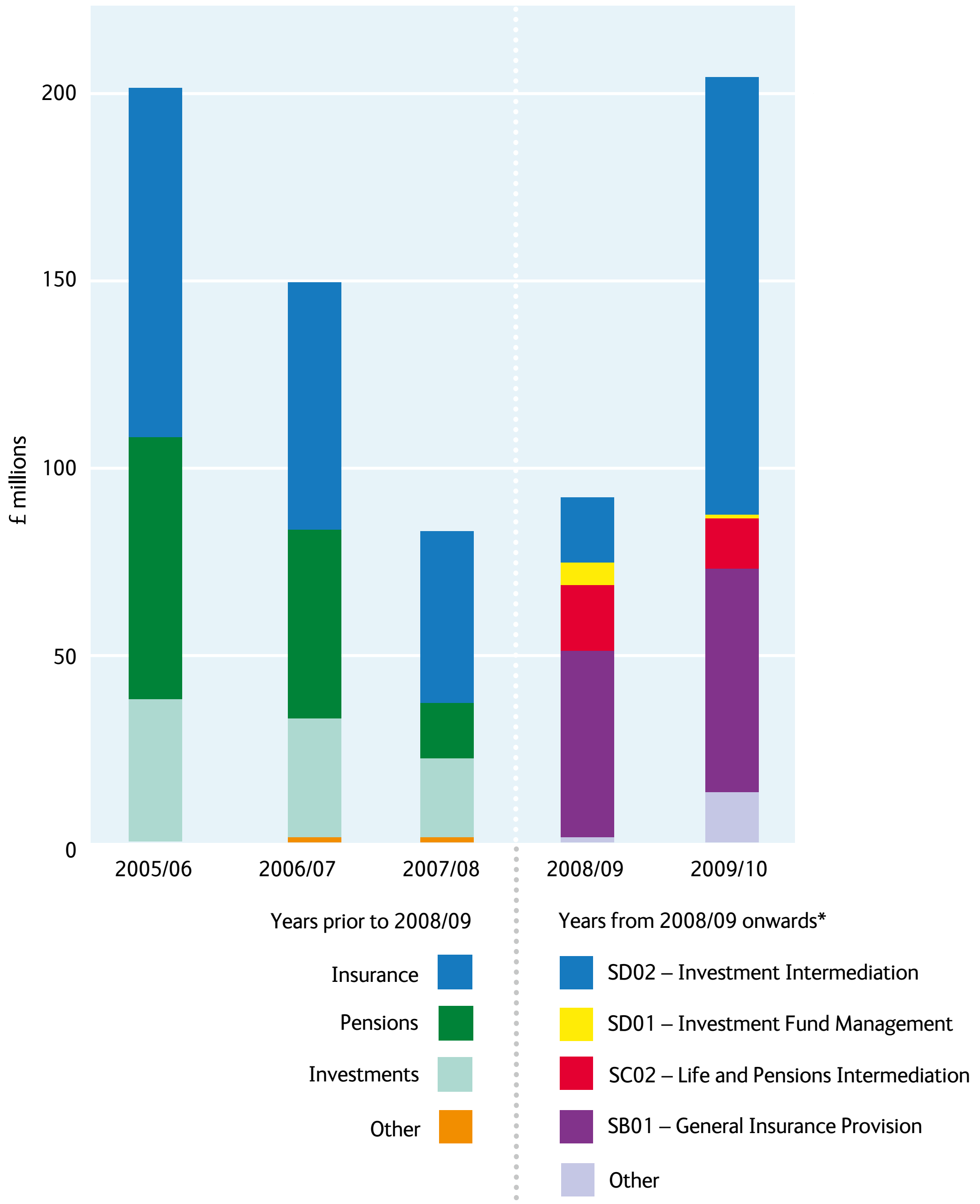
Compensation payments

Total compensation payments recognised for 2009/10 amounted to £1,105.35m (excluding payments made on behalf of HM Treasury and the Icelandic Depositors' and Investors' Guarantee Fund).

Compensation payments		**£m**
SA01	Deposit (excluding Dunfermline Building Society)	0.94
SB01	General Insurance Provision	59.77
SB02	General Insurance Intermediation	12.31
SC01	Life and Pensions Provision	0.01
SC02	Life and Pensions Intermediation	13.50
SD01	Investment Fund Management	0.92
SD02	Investment Intermediation	116.86
SE01	Home Finance Provision	0.00
SE02	Home Finance Intermediation	0.15
Sub-total (excluding SDDs and Dunfermline Building Society)		**204.46**
SA01	Deposit (Dunfermline)	400.00
SDDs	(after validation adjustments)	500.89
Total		**1,105.35**

The compensation payments for the Investment Intermediation sub-class (SD02) of £116.86m were partly funded by the interim levy of £38m raised on 30 March 2009.

Compensation payments (excluding SDDs and Dunfermline Building Society): 5-year trends



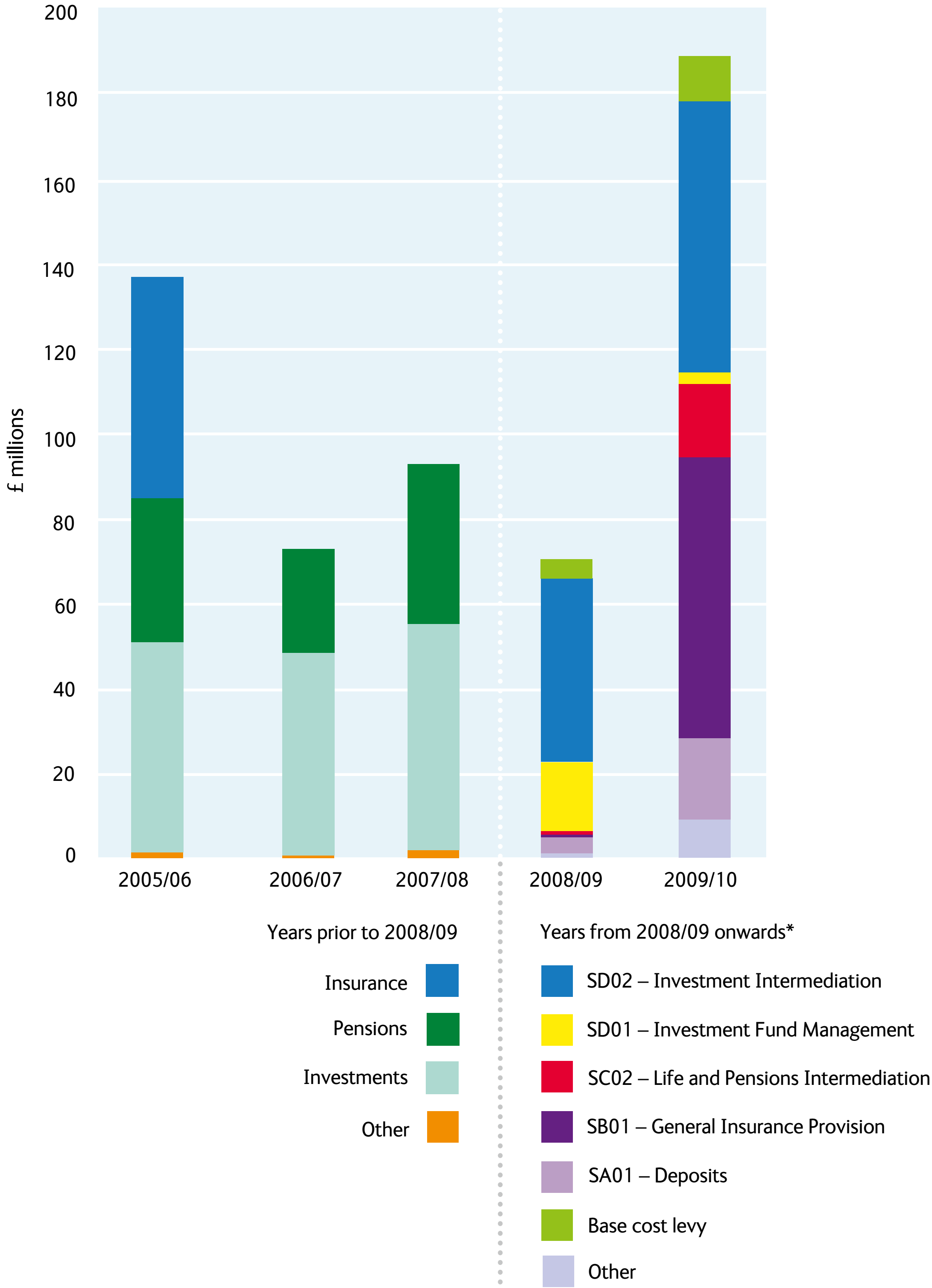
* The FSCS moved to a new funding system on 1 April 2008. Under the new funding system, the sub-classes changed so it is not possible to make direct comparisons between the old and new systems. The first key refers to the three years prior to 2008/09 with the old sub-schemes. The second key refers to the years 2008/09 onwards with the current sub-classes.

Levies received

During 2009/10, the levies received totalled £596.27m, excluding the interim levy raised on 30 March 2010 of £80m, but including the interim levy raised on 30 March 2009 of £38m.

Levies received		£m
SA01	Deposit class (excluding SDDs)	19.31
SB01	General Insurance Provision	66.66
SB02	General Insurance Intermediation	7.98
SC01	Life and Pensions Provision	0.57
SC02	Life and Pensions Intermediation	17.42
SD01	Investment Fund Management	3.00
SD02	Investment Intermediation	64.25
SE01	Home Finance Provision	0.00
SE02	Home Finance Intermediation	0.76
Sub-total (excluding SDDs and base costs)		**179.95**
Base cost levy		10.83
Sub-total (excluding SDDs)		**190.78**
SDD levy (included in Deposit class)		405.49
Total		**596.27**

Levies received (excluding SDDs): 5-year trends



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Funding requirements

For 2009/10 funding requirements, we took into account the estimated fund balances for each class and sub-class at the start of the levy period, and estimated net interest receipts and potential recoveries likely to be received. We considered the resources needed to handle the different types of claims, their likely costs and the likely value of compensation payments.

We then calculated the required levy amount to ensure that the estimated fund balance at the end of the financial year was sufficient to cover the required funding until the date of the next levy collection.

Fund balances

Fund balances as at 31 March 2010 amounted to a deficit of £19.99bn.

Fund balances by sub-class as at 31 March 2010		£m
SA01	Deposit	(767.45)*
SB01	General Insurance Provision	51.20
SB02	General Insurance Intermediation	(5.73)
SC01	Life and Pensions Provision	0.87
SC02	Life and Pensions Intermediation	9.97
SD01	Investment Fund Management	(0.12)
SD02	Investment Intermediation	(65.82)**
SE01	Home Finance Provision	0.00
SE02	Home Finance Intermediation	1.20
Sub-total excluding SDDs and base costs		**(775.88)**
Funds relating to base costs		(0.21)
Sub-total excluding SDDs		**(776.09)**
Compensation costs relating to SDDs (net of recoveries)		(19,209.54)
Total		**(19,985.63)**

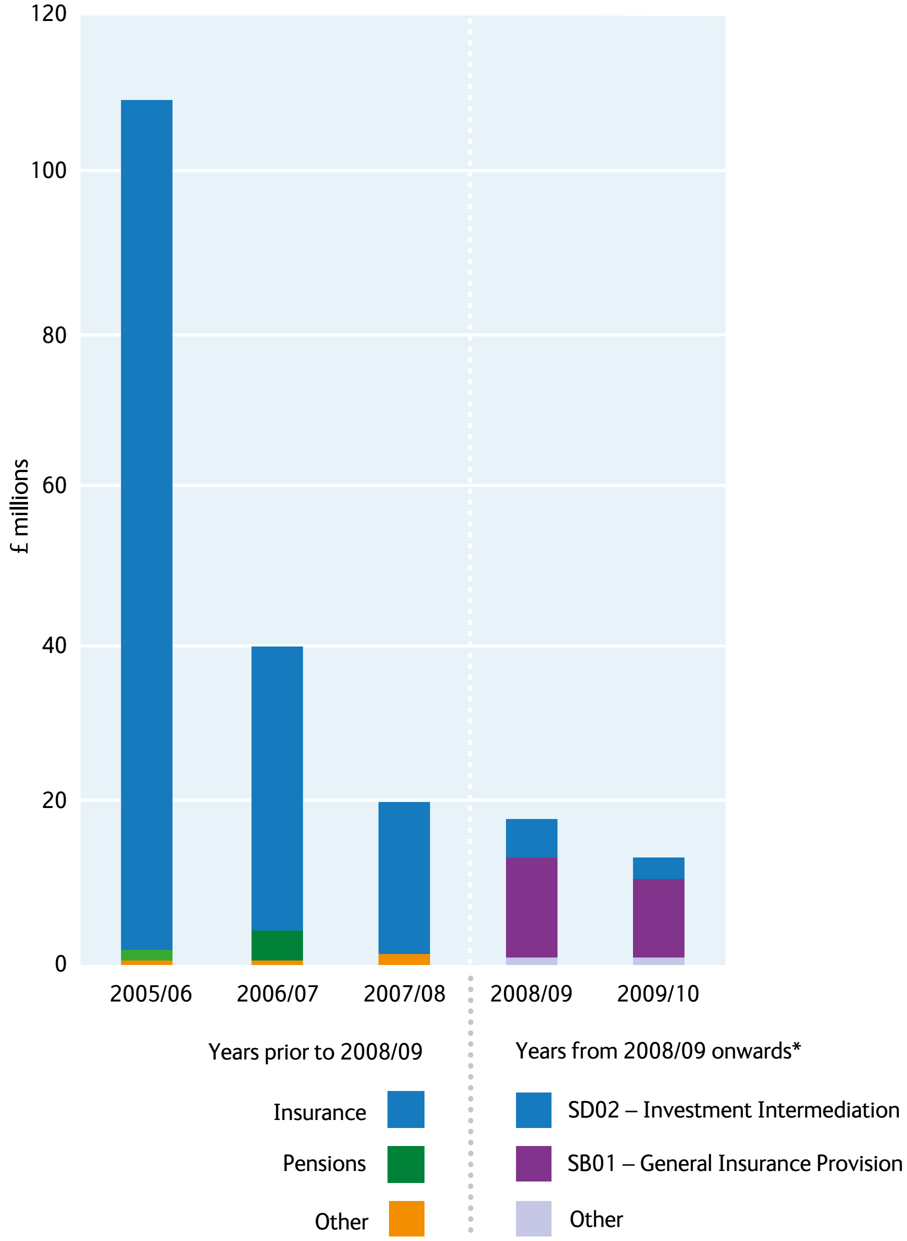
* The deficit on SA01 includes £400m provision for Dunfermline Building Society and interest on the SDD loans.

** The deficit on SD02 is covered by an interim levy made on 30 March 2010 of £80m.

Recoveries (excluding SDDs)

During 2009/10 the FSCS made recoveries of £14.76m, excluding SDDs. In addition, recoveries relating to SDDs amounted to £1,058.82m. Under the FSCS rules, we are required to pursue recoveries where 'reasonably possible and cost-effective'. Our recoveries policy is available on our website at www.fscs.org.uk.

Recoveries (excluding SDDs): 5-year trends

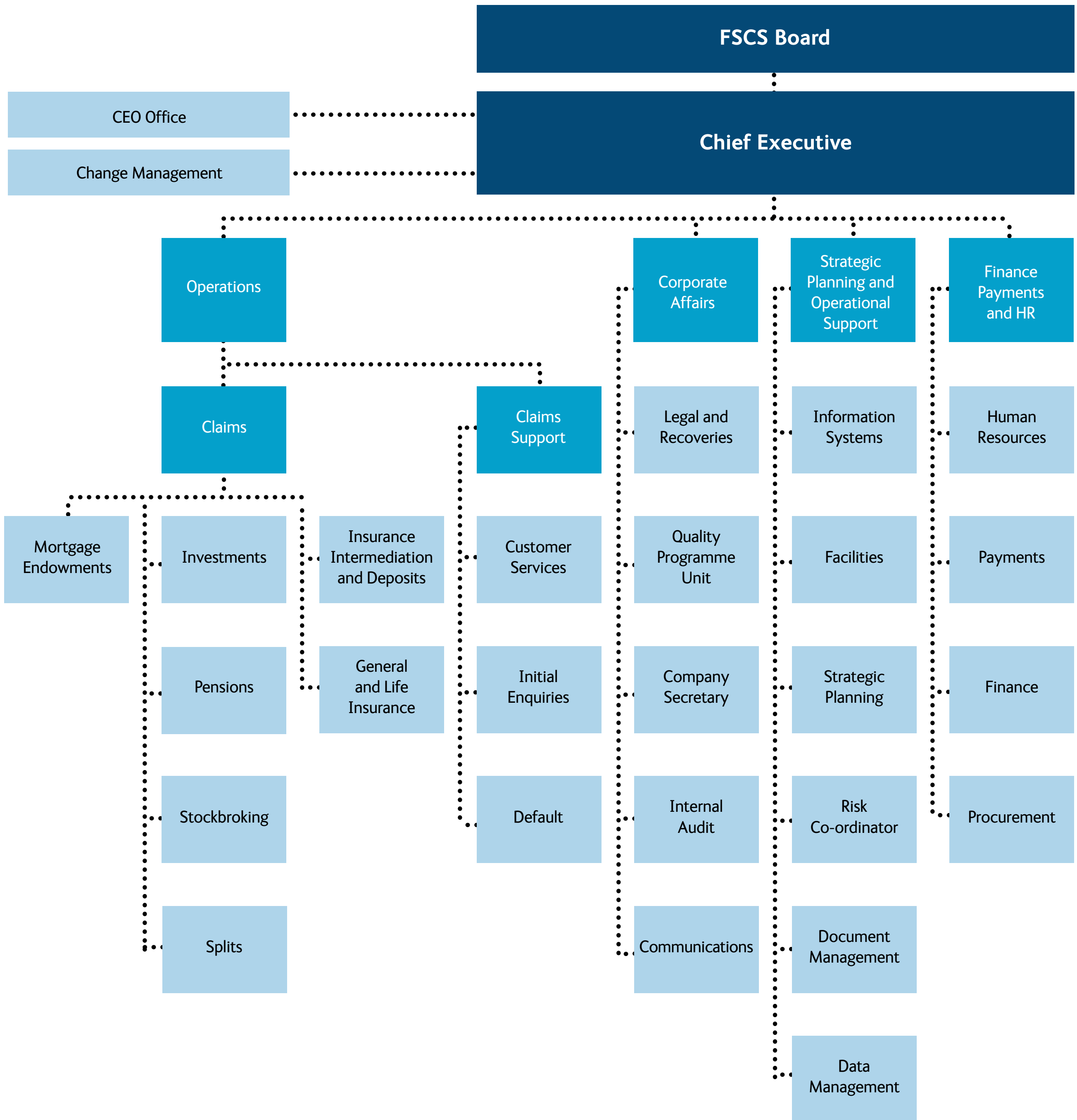


* The FSCS moved to a new funding system on 1 April 2008. Under the new funding system, the sub-classes changed so it is not possible to make direct comparisons between the old and new systems. The first key refers to the three years prior to 2008/09 with the old sub-schemes. The second key refers to the years 2008/09 onwards with the current sub-classes.

Section 7

Operational Review and Corporate Governance

The FSCS Organisation Chart as at 31 March 2010



This section looks at staffing, the composition of our Board and its committees, the internal controls and the principal risks and uncertainties in our work.

Staff and resources

Our claims strategy involves using a mix of in-house teams and outsourcers to help manage fluctuating claims volumes while retaining key skills.

Staff numbers

Staff levels at the year end were 181, increasing from 173. During the year:

- 24 staff joined the FSCS; and
- 16 staff left the FSCS, including four who joined the Financial Ombudsman Service following a secondment there.

This gave a staff turnover rate of 8.5%, compared with 11.5% during 2008/09.

Staff numbers by grade are as follows:

	As at 31 March 2010	As at 31 March 2009
Administration Assistant	25	27
Claims Officer	39	38
Senior Claims Officer	73	69
Assistant Manager	24	22
Senior Manager & Head of Division	18	15
Chief Executive and other Executive Directors	2	2
Total	**181**	**173**

Comprising:

	As at 31 March 2010	As at 31 March 2009
Operational	176	159
Secondees and other staff on maternity or other long-term leave	5	14
Total	**181**	**173**

Staff mix as at 31 March 2010

- Our staff mix comprised 81 women and 100 men (compared with 77 and 96 in 2008/09).
- 26% of staff were aged 30 or younger, with 14% over 50 years of age (compared with 33% and 11% in 2008/09).
- The average age of staff was 38, with the youngest being 19 and the eldest 64 (compared with 37, 18, 63 in 2008/09).

Ethnic backgrounds

Staff identified their ethnic backgrounds as follows:

	As at 31 March 2010	As at 31 March 2009
Asian	11	10
Black	24	19
Oriental	2	3
Other	8	6
White	136	135
Total	**181**	**173**

Skills and training

Our staff are encouraged to develop professional qualifications relevant to their work, and hold a range of these, including Financial Planning Certificates at Levels 1, 2 and 3, and Chartered Insurance Institute qualifications.

We spent £90,674 during the year (compared with £121,645 in 2008/09) on a mixture of management skills, technical training and continuing professional development.

The Board

The Financial Services Authority (FSA) appoints the Board of Directors on terms which secure their independence from the FSA in the operation of the Scheme. The Chairman's appointment (and removal) is subject to the approval of HM Treasury.

The FSCS is independent from the FSA, although accountable to it. Details of our Board members follow.

Non-executive directors

David Hall (Chairman) – reappointed 1 April 2009

Non-Executive Director of C Hoare & Co, a member of the Advisory Board of Campbell Lutyens (a specialist advisory investment bank in private equity), and a Non-Executive Director of Ricardo Plc. From 1973 to 2000 David worked at Boston Consulting Group, where his roles included Senior Vice President serving on the firm's Worldwide Executive Committee, Chairman Worldwide Financial Services Practice Group, Chairman Global Practice Groups and Chairman Global Human Resources. David has an MA in economics from Jesus College Cambridge, and an MSc from London Business School.

Anthony Ashford – reappointed 1 February 2010

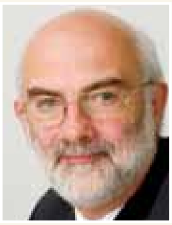
Anthony is currently the Chairman of the HSBC Pensions Trust and a Non-Executive Director of AIB (UK) Limited and the Jubilee Sailing Trust. He worked for HSBC from 1985 until 2005, rising to the position of General Manager, Personal Banking and Executive Committee member in 2000. He previously worked for Thomas Cook and the British Steel Corporation.

Terence (Terry) Connor – reappointed 1 June 2008

A senior independent Director of New Star Private Equity Trust, Terry is a member of the Legal Services Board and a trustee of Africa Education Trust. He is a strategy consultant for small and medium-sized enterprises in the media and publishing sectors and began his city career as a media analyst for James Capel & Co and Smith New Court.

Alexandra (Sandy) Kinney – reappointed 1 June 2008

Sandy is a Non-Executive Director and Chairman of the Audit Committee for Skipton Building Society, as well as an adviser on risk and performance management to the boards of a number of insurance companies and investment banks. She retired from her role as a senior Financial Services Partner at PricewaterhouseCoopers and was previously at KPMG.



Richard Pratt – retired from Board 31 May 2009

Richard is a Financial Services Regulatory Consultant, and Ombudsman for KPMG. Before that he was Director General of the Jersey Financial Services Commission from 1999 to 2003; and Director External Affairs at the London International Financial Futures and Exchange (LIFFE). Richard's earlier career was as a civil servant, principally with HM Treasury.

Rosalind Reston – reappointed 1 February 2010

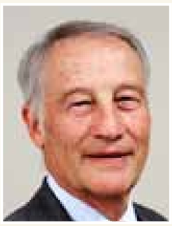
A solicitor, authorised insolvency practitioner and accredited mediator, Rosalind is also a Non-Executive Director of Sport Resolutions (UK). Until 2006 she was a partner at the law firm Lovells, where she worked for 21 years. While at Lovells, Rosalind was involved in banking, fraud and insolvency matters and acted for a wide variety of banks and other financial institutions.

Mark (Ivan) Rogers – appointed 1 June 2009

Ivan started his career as a civil servant and the posts he held included Principal Private Secretary to former Prime Minister Tony Blair; Private Secretary to former Chancellor of the Exchequer, Kenneth Clarke; and Director of European Policy and Director of Budget and Tax Policy at HM Treasury. Ivan joined Citigroup as a Senior Government Banker for the UK in July 2006 and is a member of Citigroup's UK Banking and Broking Board.

John (Max) Taylor – appointed 1 September 2007

Max is recently retired from insurance broker Aon UK. Before joining Aon in January 2001, he completed a three-year term as Chairman of Lloyd's, the Insurance Market. He is Chairman of the Council of the University of Surrey, a Director of Qatar Insurance Services and Chairman of the Mitsui Sumitomo Insurance London Companies.



Philip Wallace – appointed 1 June 2009

Philip was a chartered accountant at KPMG from 1971 to 2005, finishing as Vice Chairman and then Chairman of the Audit Committee. His main specialism was Corporate Recovery, where he was the senior partner responsible for complex restructurings and insolvency. Since his retirement, Philip has a number of non-executive roles including the Chairmanship of the Insolvency Services Steering Board which he took up in 2007.

Catherine (Kate) Williams – retired from Board 31 May 2009

A licensed insolvency practitioner and a member of the Institute of Chartered Accountants in England and Wales (ICAEW), Kate previously worked as Director in the Deloitte & Touche Corporate Recovery Department and at Lloyd's as Head of Corporate Member Solvency in its Risk Management Department.

Christopher Woodburn – reappointed 1 June 2008

Christopher is a member of the Investigation Committee of the ICAEW, and was previously Chief Executive of the General Insurance Standards Council. He was an Executive Director and then Deputy Chief Executive of the Securities Association from 1988 to 1991. Christopher has also held various directorships, including Chief Executive at the Securities and Futures Authority.

Executive directors

Mark Neale (Chief Executive) – appointed 4 May 2010

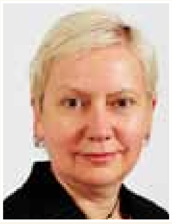
Formerly Director General at HM Treasury responsible for Budget, Tax and Welfare, Mark has spent the past four years leading on the development of tax policy and delivery of the annual Budget and Pre-Budget Report, managing fiscal risk and welfare policy, including reducing child poverty. Previously, he was Director General for Security at the Home Office with responsibility for Counter-terrorism and Organised Crime. This included the creation of the Serious Organised Crime Agency, and development of the Government's counter-terrorism strategy. Mark has also been responsible for welfare reform as Director for Children and Housing at the Department for Work and Pensions, and was Finance Director of the Employment Service.

Loretta Minghella OBE (Chief Executive) – resigned 28 February 2010

A lawyer by background, Loretta was formerly a legal adviser and prosecutor in the Department for Trade and Industry's Investigations Division; Head of Enforcement Law and Policy Support function at the Securities and Investments Board; Head of Enforcement Law, Policy and International Co-operation at the FSA and former Chair of the International Organization of Securities Commissions' Standing Committee on Enforcement and Exchange of Information.

Aleksander (Alex) Kuczynski (Director of Corporate Affairs) – appointed 1 February 2010

Alex was previously General Counsel and, before that, Head of Legal at the FSCS. The Director of Corporate Affairs role brings together the Scheme's work in areas that include legal support, communications and policy. Alex acted as Interim Chief Executive for the FSCS from March to May 2010. Alex joined the FSCS from the Investors Compensation Scheme, where he was Head of Legal.



Katherine (Kate) Bartlett (Director of Operations) – appointed 1 February 2010

Kate began her career working on IT projects in the financial services industry at Andersen Consulting and subsequently Cazenove. Her career includes 15 years working for UBS in senior roles in service delivery, programme management, IT, change management, contract negotiation and outsourcing.

Jonathan Clark – resigned 15 May 2009

A chartered loss adjuster and chartered insurance practitioner, Jonathan was formerly Technical Director for Casualty & Construction, and Marketing Director and Director of IT for Ellis & Buckle. From 1997, he held a number of roles at Crawford & Company, including Senior Vice President International Quality and Compliance and member of the Executive Team. Jonathan was Treasurer of the Chartered Insurance Institute and Chairman of the Faculty of Claims.

Corporate governance

The FSCS Board remains committed to high standards of corporate governance. Accordingly, the Board has agreed to follow the provisions of the Combined Code on Corporate Governance (revised in June 2008). The FSCS recognises that the code applies only to UK-listed companies. However, the Board believes that it would be beneficial to both the FSCS and its stakeholders if the FSCS were to adopt the approach of a listed company by following the provisions of the code and reporting on the extent to which it has complied with the code. The first part of this section, therefore, explains how the FSCS has applied the main and supporting principles of Section 1 of the code, and the second part reports on the FSCS's compliance with the code by explaining where it has departed from some of the code's provisions.

The Board

Composition of the Board

The FSCS Board currently comprises 12 directors, nine of whom are non-executive directors, including the Chairman. The three executive directors are the Chief Executive, the Director of Operations and the Director of Corporate Affairs.

All directors are appointed by the FSA. The appointment (and removal) of the Chairman is also approved by HM Treasury.

Appointments of non-executive directors are made within the spirit of the principles set out by the Committee on Standards in Public Life, using an external search consultancy, open advertising and transparent recruitment processes.

The biographical details of the directors (see pages 56–58) demonstrate the broad range of experience and expertise they bring to the Board. Directors are subject to a conflict of interest policy to prevent any potential interference with the independence of their judgement on Board matters. Subject to any such potential conflicts of interest that may be declared on individual matters from time to time, all of the non-executive directors are considered to be independent, within the meaning expressed in the code provision A.3.1.

The FSA appointed Ivan Rogers and Philip Wallace to the Board as Non-Executive Directors on 1 June 2009 for a period of three years, to fill the vacancies created by Catherine Williams and Richard Pratt, who retired from the Board on 31 May 2009, having both served five years. Jonathan Clark, formerly Head of Claims at the FSCS, left in May 2009 and, as a result, resigned as Executive Director on the FSCS Board on 15 May 2009. Kate Bartlett (Director of Operations) and Alex Kuczynski (Director of Corporate Affairs) were both appointed to the Board as Executive Directors on 1 February 2010 for initial three-year terms.

Loretta Minghella OBE, having stepped down as Chief Executive on 28 February 2010, resigned from the Board on that same date; and Mark Neale, the FSCS's new Chief Executive, was appointed to the Board with effect from 4 May 2010 for an initial period of three years.

Induction, appraisals, training and development

On appointment, new directors go through an FSCS-delivered induction programme and, depending on their recent experience, director training. The FSCS induction is split into two parts. The first involves being briefed by the FSCS's senior managers on the operation of the Scheme and the various functions within the organisation. The second involves receiving more detailed briefings from the claims teams on the different claims processes. New directors also take this opportunity to 'sit in' with some of the claims teams to see, first hand, the work involved in processing claims. Similar claims briefings are also given to other directors from time to time, although none were held during 2009/10. When held, these help to refresh directors' knowledge of existing claims practices, and explain new or revised processes.

Directors are also given training, usually from external providers, on their duties and responsibilities as directors. Such training is delivered not only on appointment to the Board, but also on an occasional basis as a way of maintaining and refreshing directors' knowledge in this area.

Aside from training given to individual directors on appointment to the Board, a bespoke one-day workshop on directors' duties and responsibilities, tailored to the needs of the FSCS Board, was delivered by an external provider in October 2009.

Separately, the Audit Committee recognises that it should be updated from time to time on current best practice for Audit Committees. The Audit Committee attended a bespoke workshop on Audit Committee effectiveness in March 2010, delivered by an external consultant. This was geared specifically to look at the way in which the FSCS's Audit Committee operated. It was concluded that the Audit Committee was broadly operating in line with good corporate governance principles, although a number of minor changes were suggested and are currently being considered. The Audit Committee also attended an internal workshop on the FSCS's risk management approach and the internal audit function.

In addition to receiving briefings and training on FSCS issues and directors' duties and responsibilities, directors keep up to date with developments in the financial services industry. The Chairman and Chief Executive continued to meet the Tripartite Authorities (HM Treasury, the FSA and the Bank of England) and trade bodies on a regular basis during the year.

All directors are given a formal annual appraisal by the Chairman. Since 2006, the directors' appraisal system has involved a more structured and comprehensive mechanism for obtaining feedback on directors' performance. The Chairman's own performance is similarly assessed, and his formal appraisal is conducted by a non-executive director selected for carrying out this task.

Operation of the Board

The Board met 14 times during the year. A formal schedule of matters reserved to the Board has been documented and agreed in order to provide a framework for the Board's decision making. In accordance with this schedule, the Board has responsibility for a number of statutory requirements, primarily those deriving from company law and the Financial Services and Markets Act 2000, as well as governing the strategic direction and the financial operation of the Scheme. It is responsible for setting policy and ensuring that appropriate internal control measures are in place.

The Board believes that it receives, and has access to, relevant information on a timely basis in order to make appropriate decisions, although directors take the opportunity to review this on an ongoing basis to ensure that the Board continues to receive sufficient timely, relevant and focused information.

The Company Secretary, appointed by the Board, attends all Board and Committee meetings, and is responsible for ensuring that Board procedures are followed and that appropriate records are kept. Directors are permitted to obtain independent professional advice, as required, on any matter that might assist them in the furtherance of their duties.

The Board carried out its annual review of its performance and the way in which it has operated during the year. This evaluation exercise was aided by the use of a document containing a comprehensive set of criteria, with each director being invited to comment and make an assessment on each criterion. Senior managers were also invited to offer similar feedback on the operation and performance of the Board as a whole. The results of this exercise, and the implications for the Board, were discussed at one of the Board's two strategy days. These strategy days also gave the Board the opportunity to review the key risks and strategic direction of the Scheme going forward.

The Board has charged the two Board Committees with various tasks, including making certain decisions on its behalf, giving guidance to the Executive and making recommendations to the Board on a range of subjects. In light of the changes to the Board outlined above, the Board decided to commission an external review of its structure, operation and Committees. This governance review is expected to be completed in mid-2010, following which the Board will consider the recommendations made. The current committee framework is discussed below.

Committees of the Board

Finance and Administration Committee

The Finance and Administration Committee met five times during the year. It currently comprises five members: four non-executive directors and the Director of Corporate Affairs. The Committee's role is to assist the Board in fulfilling its oversight responsibilities by reviewing the strategic, management and operational activities of the Scheme. This is achieved by receiving and considering reports, providing challenge and support to the Executive on matters arising, and reporting and making recommendations to the Board where appropriate.

The Committee reviews:

- the operations of the Scheme's functional areas;
- the management accounts;
- the levy assumptions and proposals;
- the Scheme's Plan and Budget;
- banking and treasury matters, on which the committee also has delegated decision-making authority from the Board;
- remuneration issues, including making recommendations to the Board on the Chief Executive's remuneration package; and
- succession planning for the Executive Team.

During the year the Committee considered, in particular, as part of its annual agenda schedule:

- the FSCS's management accounts;
- the financial forecasts;
- certain banking and treasury management matters;
- the Plan and Budget; and
- the FSCS's communications strategy.

In addition, the Committee discussed a number of reports on the non-claims functions of the FSCS as well as the progress of the various projects being undertaken by the FSCS to make efficiency gains and process improvements, which are now being reported direct to the Board.

The Committee considered executive remuneration (including the Chief Executive's remuneration package prior to Board approval), and dealt with the succession planning arrangements for the position of Chief Executive as well as the oversight of the subsequent recruitment process for the appointment of the new Chief Executive. The committee deferred carrying out its usual annual review of effectiveness, pending the outcome of the governance review (see 'Operation of the Board' above).

Audit Committee

The Audit Committee met five times during the year. It currently comprises four non-executive directors, with the Chairman, Chief Executive and Director of Operations normally in attendance at meetings by invitation. The Committee's role is to assist the Board in fulfilling its oversight responsibilities by reviewing the financial reporting process, the system of internal control and management of risks, the audit process and the company's process for monitoring compliance with laws and regulations. The committee is responsible for reviewing, and reporting to the Board on, the following key areas:

- the Annual Accounts;
- the accounting policies;
- the financial reporting system;
- the system of internal control;
- the appointment and performance of internal and external auditors;
- the audit processes and results (for both the internal audit and external audit);
- risk management;
- compliance with laws and regulations;
- whistle-blowing arrangements; and
- arrangements for promoting health and safety at work.

Composition of the Board Committees

Committee membership (as at 31 March 2010)	Audit Committee members	Finance & Administration Committee members
Non-Executive Directors:		
Anthony Ashford		Chair
Terence Connor		X
Alexandra (Sandy) Kinney		X
Rosalind Reston	X	
Mark (Ivan) Rogers		X
John (Max) Taylor	X	
Philip Wallace	X	
Christopher Woodburn	Chair	
Executive Director:		
Aleksander (Alex) Kuczynski		X

During the year, in addition to the above items, the Committee considered quality assurance reports on claims, the Scheme's approach towards quality assurance sampling, internal audit reports, the rolling internal audit programme, directors' expenses and the directors' training log. The Committee conducted reviews of the effectiveness of both the external audit and internal audit processes, and also carried out its annual review of the effectiveness of the Committee. The Committee also continued to review and develop further the Scheme's risk management approach, and looked not only at the FSCS's Risk Register but also individual key risks in more depth.

Some of these matters are covered in more detail below, under 'Internal controls'.

During 2009/10, there were a number of changes to Committee memberships:

- Christopher Woodburn moved from the Finance & Administration Committee to become Chairman of the Audit Committee.
- Sandy Kinney moved from the Audit Committee to the Finance & Administration Committee.
- Anthony Ashford became Chairman of the Finance & Administration Committee.
- Mark (Ivan) Rogers and Philip Wallace became members of their respective Committees shortly after joining the Board.

Attendance at Board and Committee Meetings

The following table shows the directors' attendance at meetings of the Board, the Audit Committee and the Finance and Administration Committee during the year, together with their dates of appointment and current expiry dates.

	Board	Audit Committee	Finance & Administration Committee	Appointment date	Expiry of current term
Number of meetings held:	14	5	5		
Non-Executive Directors:					
Anthony Ashford	12/14		5/5	1 Feb 2007	(renewed 1 Feb 2010) 31 Jan 2013
Terence (Terry) Connor	14/14		4/5	1 Jun 2005	(renewed 1 June 2008) 31 May 2011
David Hall	14/14			1 Mar 2006	(renewed 1 April 2009) 31 Mar 2012
Alexandra (Sandy) Kinney	13/14	1/1	4/4	1 Jun 2005	(renewed 1 June 2008) 31 May 2011
Richard Pratt	2/2		1/1	1 Jun 2004	(renewed 1 June 2007) Retired 31 May 2009
Rosalind Reston	14/14	5/5		1 Feb 2007	(renewed 1 Feb 2010) 31 Jan 2013
Mark (Ivan) Rogers	10/12		4/4	1 Jun 2009	31 May 2012
John (Max) Taylor	13/14	4/5		1 Sep 2007	31 Aug 2010
Catherine (Kate) Williams	2/2	1/1		1 Jun 2004	(renewed 1 June 2007) Retired 31 May 2009
Philip Wallace	11/12	1/3		1 Jun 2009	31 May 2012
Christopher Woodburn	13/14	4/4	1/1	1 Jun 2005	(renewed 1 June 2008) 31 May 2011
Executive Directors:					
Jonathan Clark	0/2		1/1	1 Jul 2007	Resigned 15 May 2009
Loretta Minghella	13/13		4/5	6 Dec 2004	(renewed 1 May 2007) Resigned 28 Feb 2010
Aleksander (Alex) Kuczynski	2/2			1 Feb 2010	31 Jan 2013
Katherine (Kate) Bartlett	2/2			1 Feb 2010	31 Jan 2013

Note: Rosalind Reston and Terence Connor replaced Richard Pratt and Catherine (Kate) Williams as Trustees of the FSCS Pension Scheme on 1 June 2009. There were six Trustee meetings during the year.

The Claims Decisions Committee
The Claims Decisions Committee meets on an ad hoc basis to consider marginal or unusual claims and difficult claims issues. Its membership comprises three directors: the Chief Executive and any two non-executive directors. One case was referred to this Committee during the year.

Internal controls
The Board recognises that a sound system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can only provide reasonable, and not absolute, assurance against material mis-statement or loss.

The arrangements for internal control have been in place throughout the year and are kept under regular review by the Board. During the year, the Board undertook the annual review of the appropriateness and effectiveness of the internal controls, drawing on reports from management and advice from the Audit Committee. During 2009/10, the Board and the Audit Committee have continued to consider and review additional control issues relating to the five Specified Deposit Defaults (i.e. the banking failures), having implemented new systems and controls in the previous year to respond to the unprecedented levels and types of claims to the FSCS in respect of these defaults. Together with external advisers, the FSCS carried out a review of the systems and controls, which will assist the handling of similar defaults in the future.

The main components of the FSCS's system of control comprise the following:

- clear lines of responsibility and delegated authority throughout the organisation;
- clearly documented procedures and Board-approved operational policies;
- the identification of risks in the Risk Register, the ongoing assessment and monitoring of those risks and the arrangements for managing them;
- the reviewing of the regular reports from the Scheme's Quality Programme Unit (QPU) and the work of the auditors (both internal and external); and
- regular monitoring of performance against plans and targets by management.

In addition, the Board regularly reviews the FSCS's performance against its Plan and Budget, and receives monthly and quarterly reports on the operational and financial position of the Scheme, including budgets and forecasts, as well as reports from the Finance & Administration Committee. The Board also receives reports from the Audit Committee on, amongst other things:

- the internal and external audit functions;
- the procedures for the assessment and management of risks; and
- the FSCS's internal controls (which include financial, operational and compliance controls).

The following examples illustrate the additional work that the FSCS has carried out during the period covered by the Annual Report and Accounts in order to satisfy itself that there are appropriate controls throughout the organisation.

1. The Audit Committee has continued to review the process by which risks are managed and monitored at the FSCS. The FSCS's Risk Register, which identifies and prioritises key risks to the organisation and highlights the relevant controls for each risk area, was further refined during the year. This is treated as a continuous process, with the Risk Register changing over time in line with changes in the FSCS's priorities, activities and exposure to risk. The Risk Register is reviewed and updated regularly by management, and considered by the Audit Committee at each meeting. The Audit Committee also discusses certain key risks in more depth, which allows the Committee to analyse the extent to which each of these key areas of risk can be managed by the Scheme. The Committee reports to the Board after each Committee meeting, and as a matter of good practice the Board itself considers the Risk Register twice a year.

2. The Audit Committee has continued to ensure that the internal audit programme is aligned to the Scheme's risk assessment work, and that internal audit reports are linked to the relevant risks identified in the Risk Register.

3. The Audit Committee receives reports on the quality assurance (QA) reviews of claims processes. These QA reviews are carried out by the FSCS's internal QPU, and identify issues that are considered further in order to establish whether any improvements could be made or remedial measures put in place.

4. Our internal auditors have continued to conduct reviews and provide reports on various aspects of the Scheme's work as part of the annual programme and in response to events in the year. The Head of QPU oversees this work, and the Audit Committee considers, and reports to the Board on, the internal audit plan and the reviews that have been carried out. During the year, the Audit Committee has considered internal audit reports on:

- treasury management;
- communications;
- business contingency planning;
- recoveries; and
- the levy and expense allocation process.
- The internal auditors carry out reviews in accordance with an agreed rolling programme, and management follows up the agreed recommendations. The internal auditors also reported on the follow-up work on recommendations made in previous internal audit reports.

5. The Board and the Audit Committee have considered further the changing face of the Scheme and its enhanced remit, and looked into the associated risks and controls. In addition, the Board recognised the risks associated with the transition to the new Chief Executive and the new Director of Operations, and that there were a number of risks associated with our ongoing programme of change and the recently started review of our funding model.

6. The Board continued to consider claims processes and policies, in particular:

- the intensive work required to be able to deliver faster payout on deposits by 2011;
- the FSCS's approach towards recoveries and levies;
- the number and nature of complaints received by the Scheme;
- recommendations made by the Independent Investigator in his reports;
- changes proposed as a result of receiving feedback from claimants in customer feedback reports; and
- the Scheme's contingency planning for large business failures in the industry.

7. The Board also continued to discuss extensively the issues relating to compensation reform and the Banking Act 2009 to ensure that reforms took due account of the FSCS's views and experience.

8. Any non-audit work to be carried out by our external auditors must be approved in accordance with the FSCS's policy. The policy includes the requirement to ensure that the external auditors' objectivity and independence would be safeguarded were they to carry out any non-audit work for the Scheme, and sets out an approval procedure. A report is now also submitted annually to the Audit Committee on any non-audit work carried out by the external auditors. In 2009/10, our external auditors have not carried out, nor have they been invited to tender for, any non-audit services for the FSCS.

Principal risks and uncertainties

The Scheme's risk management processes are described above. As a result, we have established that key risks to the Scheme's business arise from the following:

- large business failures in the industry;
- the Scheme's ability to respond effectively to significant changes in claims volumes;
- potential changes in legislation and regulatory approach;
- management risks associated with increasing expectations and demands on the Scheme and with the developing Board/Executive relationship;
- key business objectives being jeopardised, in more challenging circumstances, by planned but extensive change;
- the eligibility and quantification of compensation payments; and
- overseas/cross-border failures.

The processes to manage these key risks and other identified risks are also detailed under 'Internal controls'.

Financial risk management

The FSCS's operations carry a variety of financial risks that include treasury risk and the effects of credit, liquidity, interest rate and currency risks. The principal financial instruments comprise HM Treasury loan arrangements, bank overdrafts and loan facilities, cash and short-term money market deposits.

Other instruments, such as trade receivables and trade payables, arise directly from the business operations but no financial derivatives are held. Related risks are managed in accordance with Board-approved policies that are closely monitored, regularly reviewed and, where appropriate, externally benchmarked.

Throughout the year, monies were placed mainly with the Bank of England. The company maintains a balance between readily available funds to meet cash flow requirements and flexibility in placing money-market deposits over periods not exceeding six months. HM Treasury borrowing facilities and commercial bank overdrafts, loan facilities and finance leases are also available for use. Interest-bearing money is placed on terms to achieve competitive returns at the time each deposit is made. Given the current levels of net debt, interest rate risk is presently considered to be low, and no instruments are currently in place to further mitigate any risk. To the extent that liabilities arise in a currency other than £sterling, these are covered by equivalent currency deposits, placed on terms within the policies agreed by the Board. It is company policy not to engage in speculative transactions of any kind.

Directors' remuneration

Non-executive directors' fees are reviewed by the FSA, which sets the fees. The Finance & Administration Committee considers the full remuneration package for the Chief Executive, and makes recommendations to the Board for approval (in both cases the Chief Executive is not present when this remuneration package is being considered). Remuneration details of directors are given in the 'Directors' Report and Accounts' on pages 73 and 74.

Compliance with the Combined Code

The FSCS complied throughout the period covered by this report with the code provisions set out in Section 1 of the Combined Code on Corporate Governance (revised in June 2008), except in the following areas:

- A.1.2 and A.3.3 (senior independent director);
- A.4.1 to A.4.3 and A.4.6 (Nomination Committee);
- A.7.1 (length of directors' appointments);
- B.1.1 and B.2.2 (remuneration for executive directors and the Chairman);
- B.2.1 (Remuneration Committee); and
- B.2.3 (remuneration of non-executive directors).

All appointments to the FSCS Board are made by the FSA, with the Chairman's appointment (and removal) also being approved by HM Treasury. Accordingly, the FSCS does not use a separate nominations committee.

The FSA, with input from the FSCS where required, considers areas such as the balance of skills, knowledge and experience on the Board, rotation on the Board and directors' fees. The FSCS also has an active supporting role with the FSA in respect of the recruitment of the FSCS's non-executive directors. Such input includes assisting in the drafting of job specifications for directors as vacancies arise and assisting in the shortlisting and interview processes.

The FSCS does not have a separate remuneration committee, although the Finance & Administration Committee has responsibility for certain remuneration matters. The remuneration of the non-executive directors, including the Chairman, is determined by the FSA, and the FSCS assists the FSA by providing relevant information to assist the FSA in this process. The remuneration package of the Chief Executive is considered annually by the Finance & Administration Committee, and is approved by the Board (in both cases without the Chief Executive being present). Performance is taken into account in this annual review, and executive director remuneration incorporates a performance-related element. The Director of Operations and Director of Corporate Affairs, who are both Heads of Division, are also executive directors on the Board but report to the Chief Executive. Accordingly, while the Finance & Administration Committee considers the general remuneration framework for Heads of Division, it is the Chief Executive who currently sets the remuneration of the other executive directors after consultation with the committee.

The Memorandum of Association states that directors' appointments are to be made for periods not exceeding four years, at which time directors may be submitted for reappointment, although the Combined Code recommends that directors should be subject to re-election at intervals of no more than three years. The Board's rotation system uses a staggered approach by varying the terms of appointment and reappointment usually between one, two and three years. The first appointments to the Board, in 2000, were for periods of two, three or four years. All subsequent appointments and reappointments have been made for three years or less, in line with the Combined Code.

The Combined Code recommends that there should be a recognised senior independent director, other than the non-executive Chairman, to whom concerns can be conveyed. Given the largely non-executive structure of the Board, the FSCS has operated without identifying such a senior director since its inception. The Board revisits this issue periodically, the most recent review being in 2009, and remains of the view that the present system continues to be appropriate for the FSCS. The Board has, however, agreed that it should select a non-executive director to take the chair at Board meetings in the absence of the Chairman, and also a non-executive director to carry out the formal appraisal of the Chairman following discussions with other directors.

Section 8

Directors' Report and Accounts

The directors of Financial Services Compensation Scheme Limited present their tenth report, together with the audited financial statements of the FSCS and its classes and sub-classes for the year ended 31 March 2010.


fscs
Financial Services
Compensation Scheme

Directors' Report and Accounts

Principal activities

The FSCS was formed to be the designated Scheme Manager under s212 of the Financial Services and Markets Act 2000 (FSMA), to administer a single compensation scheme for consumers in respect of regulated financial services activities, should an authorised financial services firm be unable, or likely to be unable, to meet its liabilities. The FSCS assumed its responsibilities at midnight on 30 November 2001 (a date referred to as N2), when the FSMA came into force, and has fulfilled those responsibilities throughout the year ended 31 March 2010.

Review of activities

Since receiving its powers under the FSMA and the integration of the former compensation schemes at N2, the FSCS has continued to fulfil its responsibilities throughout the year.

Future outlook

Further matters relating to future outlook are referred to in the Chairman's Statement, on pages 6 to 9. To the extent that the outlook encompasses loans, recoveries and repayments, they are referred to in the Interim Chief Executive's report on pages 10 to 17. Recoveries will be paid to reduce the loans and the outstanding principal is due to be repaid from 2012 on a timetable which will be determined by the FSCS and HM Treasury depending on market conditions at the time. Until the repayment timetable is agreed in 2012, it is not possible to say which levy classes or sub-classes will be levied for any outstanding principal. At the time the loans were taken out, the then Chancellor of the Exchequer confirmed that the Government stood behind the FSCS, so the FSCS could be relied on to be able to play its role in meeting future claims that arise.

Principal risks and uncertainties

The principal risks to the FSCS arise from the global financial crisis and UK economic outlook and market conditions for firms, which in turn affect the financing of compensation costs, recoveries and operations, particularly resourcing through staff and outsourcers. These issues are referred to in the Annual Report, in particular in the Chairman's Statement on pages 6 to 9, the Interim Chief Executive's Report on pages 10 to 17, and within the management of principal risks and uncertainties on page 68.

The principal uncertainties identified are:

- funding of borrowings, which are referred to in Note 17;
- recoveries of management expenses from classes, sub-classes and third parties, see Note 10;
- recoveries through dividends from the estates of the Specified Deposit Defaults (SDDs), as explained in Note 17 and in Section 3; and
- the net costs of the failure of Dunfermline Building Society, as explained in Note 16 and on pages 21 to 23 in Section 3.

Business review

The FSCS's results show an excess of income over expenditure of £624,000 (2009: £722,000), as shown on page 78, and a net actuarial loss arising on the final salary pension scheme assets and liabilities movements of £2,958,000 (2009: £1,666,000 loss) in the Statement of Total Recognised Gains and Losses. A more detailed review of the performance of the FSCS can be found on pages 42 to 51. Administration expenses and interest payable of £387,855,000 (2009: £479,631,000) in the year includes a net credit of £581,000, being the defined benefit pension scheme contributions of £1,161,000 less the current service cost of £580,000 (see Note 7) (2009: £550,000, £1,136,000 and £586,000 respectively).

Of the gross amount of management expenses, £388,436,000 (2009: £457,913,000) is accounted for within the FSCS's classes and sub-classes and, for base costs, firms within the FSA fee blocks (see Note 10), and £nil (2009: £22,268,000) is due to be recovered from HM Treasury (see Note 13). A more detailed review of the performance of the FSCS can be found in Section 6.

Fixed assets

The movements in fixed assets during the year are set out in Note 12 to the financial statements.

The directors

Details of the directors in the year to 31 March 2010, all of whom are non-executive unless stated, are as follows:

Anthony Ashford
Katherine (Kate) Bartlett – appointed 1 February 2010 (Executive Director)
Jonathan Clark – resigned 15 May 2009 (Executive Director)
Terence (Terry) Connor
David Hall (Chairman)
Alexandra (Sandy) Kinney
Aleksander (Alex) Kuczynski – appointed 1 February 2010 (Executive Director)
Loretta Minghella OBE – resigned 28 February 2010 (Chief Executive and Executive Director)
Richard Pratt – retired 31 May 2009
Rosalind Reston
Mark (Ivan) Rogers – appointed 1 June 2009
John (Max) Taylor
Philip Wallace – appointed 1 June 2009
Catherine (Kate) Williams – retired 31 May 2009
Christopher Woodburn

Mark Neale was appointed as an Executive Director and Chief Executive with effect from 4 May 2010.

Directors' emoluments

Total emoluments paid to directors are as follows:

	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000
Aggregate emoluments	785	696
Compensation for loss of office	45	–
Pension contributions – defined benefit	39	32
– money purchase	2	13
	871	**741**

Retirement benefits during the year accrued to two directors (2009: one) under the FSCS's defined benefit scheme and one under the money purchase scheme (2009: one).

The highest-paid director, the former Chief Executive, received aggregate emoluments in the year of £346,454 (comprising basic salary of £251,443, bonus of £47,000 relating to the year ended 31 March 2009 and £45,575 relating to the year ended 31 March 2010, and other emoluments of £2,436) (2009: £279,493 comprising basic salary of £235,000, bonus of £42,000 relating to the year ended 31 March 2008, and other emoluments of £2,493), and contributions to a defined benefit arrangement under the FSCS's pension scheme have been made of £30,931 (2009: £32,105). The former Chief Executive did not receive additional remuneration in respect of her role as director.

At 28 February 2010, retirement benefits were accruing for the former Chief Executive as a result of participation in the defined benefit pension scheme from her date of appointment on 6 December 2004, as follows:

	Accrued pension at 1 April 2009	Accrued pension at 28 February 2010	Increase in accrued pension (in excess of inflation)	Transfer value of increase in accrued pension
	£ pa	£ pa	£ pa	£
L. C. R. Minghella	8,330	10,643	2,313	38,800

The pension entitlement is that which would have been paid annually on retirement based on service to 28 February 2010, on the assumption that the director left service on that date and this excludes any increase for inflation.

The fees paid to the Chairman are set at £73,500 per annum (2009: £73,500) and the fees paid to the non-executive directors are set at £21,000 per annum (2009: £21,000). Additional fees paid to the Chairmen of the Audit Committee and the Finance and Administration Committee were set at £4,750 per annum (2009: £4,750). In addition, business-related expenses totalling £15,967 (2009: £6,076) were reimbursed to the non-executive directors. The Chairman and the other non-executive directors are not entitled to a pension funded by the FSCS.

Liability insurance

The FSCS maintains insurance to indemnify itself, its directors and its officers against claims arising from its operations.

Statement of disclosure of information to auditors

Each of the persons who is a director at the date of this report confirms that:

1) so far as each of them is aware, there is no information relevant to the audit of the FSCS financial statements for the year ended 31 March 2010 of which the auditors are unaware; and

2) the director has taken all steps that he/she ought to have taken in his/her duty as a director in order to make him/herself aware of any relevant audit information and to establish that the FSCS auditors are aware of that information.

Statement of the directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with UK Generally Accepted Accounting Principles (United Kingdom Accounting Standards and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the income and expenditure for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that the financial statements comply with the requirements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the UK governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Corporate governance and financial risk management

A statement of corporate governance, including financial risk management and principal risks and uncertainties, is contained on pages 59 to 69.

Going concern

The directors are satisfied that the FSCS is in a position to meet its obligations as they fall due and, as such, the FSCS is a going concern and it is appropriate that these financial statements are prepared under the going concern accounting convention.

Auditors

A resolution proposing the re-appointment of PricewaterhouseCoopers LLP as auditors will be put to members at the Annual General Meeting.

By order of the Board

Mark Thomas
Secretary
15 June 2010

Report of the Auditors

Independent Auditors' Report to the Members of Financial Services Compensation Scheme Limited

We have audited the financial statements of Financial Services Compensation Scheme Limited for the year ended 31 March 2010 which comprise the Income and Expenditure Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Statement of Cash Flows and the related Notes. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Principles).

Respective responsibilities of directors and auditors

As explained more fully in the statement of the directors' responsibilities in respect of the financial statements set out on page 75, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2010 and of its results and cash flows for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Principles; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Jeremy Jensen (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
15 June 2010

Financial Statements for the year ended 31 March 2010

Income and Expenditure Account

	Note	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000
Administrative expenses	4	(39,415)	(30,907)
Interest payable	5	(348,440)	(448,724)
		(387,855)	(479,631)
Operating income, comprising:			
Interest receivable and other income	9	43	172
Management expenses recoverable:			
From classes and sub-classes	10	28,850	26,905
In respect of base costs	10	11,146	4,560
Interest payable, recoverable from:			
Classes and sub-classes	10	348,440	426,448
Third parties	10	–	22,268
		388,479	480,353
Excess of income over expenditure before and after tax		**624**	**722**

All of the FSCS's operations are continuing. There is no difference between the gains and losses included above and those prepared under the historical cost basis.

Statement of Total Recognised Gains and Losses (STRGL)

	Note	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000
Excess of income over expenditure		624	722
Actuarial loss on pension scheme liabilities	7	(2,958)	(1,666)
Total recognised loss relating to the year		(2,334)	(944)
Total losses recognised since last annual report		**(2,334)**	**(944)**

The Notes on pages 81 to 101 form part of these financial statements.

Balance Sheet as at 31 March 2010

	Note	31 March 2010 £'000	31 March 2009 £'000
Fixed assets	12	**1,827**	**1,954**
Current assets			
Debtors: amounts falling due within one year	13	580,643	500,157
Cash at bank and short-term deposits	14	17,053	44,361
Debtors: amounts falling due after more than one year	13	19,609,535	22,343,893
Total current assets		**20,207,231**	**22,888,411**
Creditors: amounts falling due within one year			
Creditors and accruals	15	(100,900)	(2,010,029)
Bank overdraft	14	(346)	(2,036)
Loan interest payable	17	(382,813)	(412,552)
Total current liabilities		**(484,059)**	**(2,424,617)**
Net current assets		**19,723,172**	**20,463,794**
Total assets less current liabilities		**19,724,999**	**20,465,748**
Creditors: amounts falling due after one year			
Loans	17	(19,324,742)	(20,465,532)
Provisions for liabilities and charges	16	(400,257)	(216)
		(19,724,999)	**(20,465,748)**
Total net assets excluding pension liability		**–**	**–**
Pension liability	7	(2,700)	(366)
Total net liabilities including pension liability		**(2,700)**	**(366)**
Reserves	19	**(2,700)**	**(366)**

Approved for and on behalf of the Board of Financial Services Compensation Scheme Limited on 15 June 2010.

David Hall
Chairman

The Notes on pages 81 to 101 form part of these financial statements.

Statement of Cash Flows for the Year Ended 31 March 2010

	Note	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000
Net cash inflow (outflow) from operating activities	20	1,510,811	(20,428,229)
Returns on investments and servicing of finance	21	(394,891)	(8)
		1,115,920	**(20,428,237)**
Capital expenditure			
Payments to acquire tangible fixed assets	12	(748)	(399)
Net cash outflow from investing activities		**(748)**	**(399)**
Financing activities			
Decrease in class and sub-class borrowings		–	(199)
(Decrease) increase in loans	22	(1,140,790)	20,465,532
Net cash (inflow) outflow from financing activities		**(1,140,790)**	**20,465,333**
(Decrease) increase in cash	23	**(25,618)**	**36,697**

Notes to the Financial Statements for the year ended 31 March 2010

1 Constitution

Financial Services Compensation Scheme Limited (the FSCS) is a company limited by guarantee. The members of the Company are the directors of the Company, and liability is limited to an amount not exceeding £1 for each member. The FSCS has no share capital and no ultimate controlling party.

The FSCS was formed to be the designated Scheme Manager under s212 of the Financial Services and Markets Act 2000 (FSMA). Its full powers were assumed following the coming into force of the powers of the Financial Services Authority (FSA), under the FSMA, at midnight on 30 November 2001. The FSCS, as Scheme Manager, operates five broad classes based on identifiable industry sectors: Deposit, General Insurance, Life and Pensions, Investment and Home Finance. Each broad class is divided into two sub-classes along provider and intermediation lines with the exception of the Deposit class.

2 Accounting policies

The financial statements have been prepared under the historical cost convention and in accordance with applicable FSMA provisions, UK Generally Accepted Accounting Principles, and the COMP sections and FEES Manual of the FSA Handbook, on a going concern basis. As shown on the Balance Sheet, the FSCS has negative reserves and an excess of liabilities over assets that arise due to the inclusion of the pension liability in relation to the FSCS pension scheme valued in accordance with the principles set out in Financial Reporting Standard (FRS) 17. However, the directors are satisfied that the FSCS is in a position to meet its obligations as they fall due and have therefore prepared the financial statements on a going concern basis.

The financial statements presented here are those of the FSCS and do not consolidate or otherwise include the class and sub-class transactions except insofar as the sub-class transactions give rise to an obligation of the FSCS itself. The FEES Manual requires the FSCS to keep accounts which show the funds held to the credit of each broad class and sub-class and the liabilities of that broad class and sub-class. These accounts are set out on pages 102 to 114.

The principal accounting policies are set out below.

a) Administrative expenses

These costs are included in the Income and Expenditure Account on an accruals basis.

b) Pension scheme

The FSCS operates both a defined benefit pension scheme (the Scheme) and a money purchase scheme. The aggregate Scheme asset/liability recognised in the Balance Sheet is the excess or deficit of the present value of the Scheme assets/liabilities over the value of the Scheme liabilities/assets. Further details are contained in Note 7.

Money purchase scheme

The costs of the money purchase scheme are charged to the Income and Expenditure Account as incurred.

Defined benefit scheme

The pension costs for the defined benefit scheme are analysed as follows:

- Current service cost

Current service cost is the actuarially calculated present value of the benefits earned by the active employees in each period. This item is recognised as an expense in the Income and Expenditure Account.

- Past service costs

Past service costs comprise costs relating to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits, and are recognised in the Income and Expenditure Account on a straight-line basis over the period in which the increase in benefits vests. Any such items would be recognised as an expense in the Income and Expenditure Account.

- Settlements or curtailments

Settlements or curtailments are recognised in the Income and Expenditure Account to the extent that they are not allowed for in the actuarial assumptions. Losses on settlements or curtailments are measured at the date on which the employer becomes demonstrably committed to the transaction. Gains on settlements or curtailments are measured at the date on which all parties whose consent is required are irrevocably committed.

- Net expected return on the pension assets

Net expected return on the Scheme assets comprise the expected return on the Scheme assets less interest on Scheme liabilities. This item is recognised in the Income and Expenditure Account.

- Actuarial gains and losses

The actual return less expected return on Scheme assets and actuarial gains/losses net of tax which arise from any new valuation and from updating the latest actuarial valuation to reflect conditions at the Balance Sheet date are shown in the Statement of Total Recognised Gains and Losses.

c) Fixed assets

Fixed assets are capitalised and depreciated over their estimated useful lives at the following rate:

- Computers: 60% per annum (reducing balance basis);
- Furniture and equipment: 33⅓% per annum (reducing balance basis); and
- Leasehold improvements: straight-line basis over the periods of the leases, commencing on occupancy.

Expenditure on computer software is written off when incurred.

d) Levies, compensation costs and other items handled on behalf of classes, sub-classes and third parties

The FSCS raises levies, on behalf of the classes and sub-classes, which are credited to the funds on a cash received basis. Levies refunded are debited on payment. The levy relating to the base cost element of the management expenses has been credited to the relevant FSA fee block, on the basis previously in use, in the class and sub-class accounts. This is a change in presentation from 2008/09 when the base cost levy was allocated to classes and sub-classes, and the comparatives have been amended accordingly.

The FSCS makes compensation payments on behalf of the classes and sub-classes, which are only shown in the class and sub-class accounts. Compensation offers are accrued at the Balance Sheet date if they are due and have been made, accepted, and, for reinstatement cases, fully valued. Reinstatement cases are claims where compensation is paid to reinstate a claimant into an occupational pension scheme that the claimant was wrongly advised to opt out of, not join, or transfer away from. The amount of compensation cannot be determined until the cost of reinstatement and the value of the relevant personal pension are both known.

The FSCS has made payments referred to as deemed compensation under parliamentary Orders. The liability is incurred on the order date, and is adjusted for Balancing Payments made between the parties and updated as further information is received.

Recoveries notified before the year end, but not received by that date, are accrued by the FSCS and reflected as amounts payable to the relevant classes and sub-classes in accordance with the FSMA and the FEES Manual.

Management expenses comprise base costs, being the costs of running the classes and sub-classes; specific costs, which are the remaining costs which cover the handling and payment of compensation costs; and loan interest payable. The specific costs are allocated by the FSCS to each class and sub-class in accordance with the principles contained within the FEES Manual. The base costs are not allocated to classes or sub-classes but are shown against the FSA fee blocks by which they are levied. This is a change in presentation from 2008/09 when the base costs were allocated to classes and sub-classes. The comparatives have been amended accordingly.

e) Third party arrangements as agent

The FSCS does work for and makes compensation payments on behalf of third parties, as agent; these are recoverable from such parties. Any amounts due from third parties are shown in the Balance Sheet.

Compensation payments paid to claimants as agent on behalf of third parties are recoverable from them in full and are not shown in the Income and Expenditure Account.

Management expenses incurred in performing work on behalf of third parties are recovered from such parties by the FSCS and not allocated to the classes or sub-classes or funded by levy payers. These costs in relation to such compensation payments and related services, and the related recoveries, are shown in the Income and Expenditure Account.

f) Interest receivable

Interest received on cash deposits is credited to the classes or sub-classes in proportion to their relative fund balance.

g) Interest payable

Loan interest payable is charged to the Income and Expenditure Account in the period according to the terms of the loan, as described in Note 17.

Interest to reflect the time value of money on any Balancing Payment compensation adjustment is accrued in the period.

h) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the Balance Sheet date. All differences are charged to the classes and sub-classes.

i) Operating leases

Rentals on assets held under operating leases are charged to the Income and Expenditure Account in equal annual amounts during the term of the lease.

j) Provisions, legal challenges and costs

A provision is recognised in the Balance Sheet when there is a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. No provision is established where a reliable estimate of the obligation cannot be made.

On occasion, legal proceedings are threatened or initiated against or by the FSCS. Provision is made for the estimated full cost in respect of any such proceedings where at the end of the year it is more likely than not that there is an obligation which will require an outflow of economic benefit.

k) Loans

Loans are initially stated at the fair value amount of the consideration received.

Interest is charged to the Income and Expenditure Account over the term of the borrowings and represents a proportion of the balance of repayments outstanding. Interest accrued within a financial year (interest accrual period) becomes due and payable in accordance with the terms of the loan.

l) Special Resolution Regime

The Banking Act 2009 created a Special Resolution Regime (SRR) which gives the Tripartite Authorities a statutory framework providing tools for dealing with distressed banks and building societies. Under the Act, the FSCS may be required to contribute to the costs of the SRR, but no more than the cost the FSCS would have incurred if the relevant institution had been subject to insolvency and an FSCS depositor payout. Any such costs, although initially obligations on the Scheme Manager, are recoverable from the classes or sub-classes and will be funded through levies. The Scheme Manager's obligation is accounted for in accordance with FRS 12 as set out above and a provision recognised when it is probable that an economic outflow will be required and the outflow can be measured reliably, otherwise such amounts are disclosed as a contingency.

3 Accounting judgements and key estimation uncertainties

As identified in the Directors' Report within the section on principal risks and uncertainties (page 72), there are a number of matters of uncertainty, and in applying the accounting policies as set out in Note 2 those uncertainties could impact on the amounts recognised in the financial statements.

The uncertainties relating to the estimates of adjustments to the deemed compensation arising from the verification process referred to in last year's financial statements no longer apply, as the verification process has now been completed and the resulting adjustments are reflected in these financial statements. However, as explained in Note 17, to the extent that loans are not repaid through recoveries and/or dividends by 31 March 2012 an amortisation schedule will be agreed, taking into account prevailing market conditions at that time.

Following notice served by HM Treasury, the FSCS has an obligation to contribute to the net costs of the resolution of Dunfermline Building Society, including interest, but after recoveries, which will be discharged through levies. Based on the best information available to the Directors, a provision of £400,000,000 has been made in the financial statements for the year ended 31 March 2010. However, the final outcome may be different and the final amounts, once agreed, may, potentially, result in a material adjustment to the provision being required.

4 Administrative expenses

The following amounts are included within administrative expenses:

	Note	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000
Depreciation – owned assets	12	838	630
Auditors' remuneration			
Audit services		270	316
Non-audit services		–	99
Operating lease rentals	18	1,061	1,079

5 Interest payable

	Note	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000
Sub-class interest		–	8
Loan interest	17	344,332	412,552
Time value of money interest		4,108	36,164
		348,440	**448,724**

The loan interest payable of £344,332,000 is made up of a charge for 2009/10 of £348,408,000, less an adjustment for the previous year of £4,076,000 mainly due to the revaluation of the deemed compensation for Bradford & Bingley plc and Heritable Bank Plc, resulting from the validation process. The time value of money interest of £4,108,000 (2009: £36,164,000) relates to the interest payable or receivable on the Balancing Payment adjustment.

6 Staff costs

	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000
Aggregate gross salaries for staff, including the executive directors	8,163	7,613
Employer's national insurance contributions	889	863
Employer's pension contributions	1,539	1,543
	10,591	**10,019**

The employer's pension contributions shown above include the liability for contributions in respect of service during the year.

The average number of employees of the FSCS during the year was as follows:

	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000
Administration and Finance	49	38
Claims	128	140
	177	**178**

7 Retirement benefits

The FSCS operates both a money purchase scheme and a defined benefit pension scheme (the Scheme), which is closed to new staff.

Money purchase scheme

The non-contributory money purchase pension scheme, for permanent and fixed-term contract staff, was set up with effect from 1 February 2001. The FSCS makes contributions of 5%, with potential increments of 2% after two years' service, and a further 2% after five years. The staff member may make voluntary contributions, which, to a further 3%, will be matched by the FSCS.

Amounts paid by the FSCS into the money purchase scheme amounted to £423,000, and £nil was outstanding to be paid at 31 March 2010 (2009: £407,000 and £31,000 respectively).

Defined benefit pension scheme (the Scheme)

The FSCS operates a funded scheme of the defined benefit type with assets held in separate trustee-administered funds. The most recent approximate actuarial valuation of the defined benefit pension scheme was at 31 March 2010. The valuation used the projected unit method and was carried out by Buck Consultants, professionally qualified actuaries.

Principal actuarial assumptions at the Balance Sheet date are:

	31 March 2010 %	31 March 2009 %
Discount rate	5.50	6.90
Rate of increase in pensions in payment	3.45	2.95
Expected return on plan assets	7.80	7.70
Inflation assumption	3.80	3.25

The salary increase assumption is 2.00% p.a. for the next two years (2009: price inflation plus 1%). After two years, salary increases are assumed to follow price inflation plus 0.5% (2009: price inflation plus 1%). The salary increase assumption is a long-term increase assumption. The assumption averages 'inflationary' increases, merit and promotional increases across the whole employee membership for the period until they leave or retire from the Scheme.

The following standard mortality tables (published by the Institute and Faculty of Actuaries) and projections of future mortality improvements have been used:

> Pre- and post-retirement mortality: PMA00 for males and PFA00 for females, with future improvements to mortality projected in line with the long cohort projection methodology, with a minimum improvement of 1% p.a., allowing for individual members' years of birth.

Based on the post-retirement tables, life expectancy is 28.6 years for a male retiring at age 60 and 31.3 years for a female. The life expectancy at age 60 for a male currently aged 40 is 30.9 years and it is 33.4 years for a female.

The mortality assumptions adopted for the disclosures as at 31 March 2010 differ from those used for the 31 March 2009 disclosures. Previously, a medium cohort (rather than long cohort) projection was used. This change has the impact of assuming that Scheme members live longer, which has increased the liability of providing a retirement benefit. The change to a long cohort projection assumption reflects the view that the medium cohort improvement model does not allow for improvements sufficiently far into the future.

For the 31 March 2010 disclosures, 75% of members are assumed to exercise their option to commute the maximum amount of their pension for a Pension Commencement Lump Sum (PCLS) at retirement. Previously all retiring members were assumed not to exchange any pension for a PCLS. However, in UK occupational pension schemes it is very common for retiring members to exchange an element of their pension for the maximum amount of PCLS. As such, the assumption this year reflects a more realistic estimate of future experience.

The assumptions were chosen by the FSCS with professional advice.

At 31 March 2010 the Scheme's assets were invested in a diversified portfolio that consisted primarily of equities. The fair value of the Scheme's assets as a percentage of the total invested assets is set out below, along with expected rate of return on each asset:

	31 March 2010		31 March 2009	
		Expected rate of return		Expected rate of return
	£'000	%	£'000	%
Equities	9,098	8.05	5,748	7.75
Hedge funds	1,209	6.70	1,034	7.75
Property	583	8.30	536	7.25
Cash	340	3.80	2	1.55
Total assets/average return	**11,230**	**7.80**	**7,320**	**7.70**

In conjunction with the Trustees, the FSCS conducted an asset/liability review for the Scheme in October 2006. Such reviews are used to help the Trustees and the FSCS to determine the optimal long-term asset allocation with regard to the structure of liabilities within the Scheme. The results of the review are used to assist the Trustees in managing the volatility of the underlying investment performance and the risk of a significant increase in the Scheme deficit.

The expected return on assets is the average of the best estimate of investment returns for each of the investment classes held, weighted by the holding at 31 March 2010.

The Scheme does not invest in the sponsor's own financial instruments, including property or other assets owned by the sponsor.

The amounts recognised in the Balance Sheet are as follows:

	31 March 2010 £'000	31 March 2009 £'000
Total fair value of Scheme assets	11,230	7,320
Total present value of Scheme liabilities	(13,930)	(7,686)
Net pension deficit	**(2,700)**	**(366)**

Reconciliation of present value of Scheme liabilities

	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000
At 1 April	7,686	7,612
Current service cost	580	586
Interest cost	557	536
Benefits paid	(201)	(235)
Actuarial losses (gains)	5,308	(813)
At 31 March	**13,930**	**7,686**

Sensitivity analysis of Scheme liabilities

The sensitivity of the principal assumptions used to measure the Scheme's liabilities is set out below:

	Change in assumption	Impact on Scheme liabilities
Discount rate	Increase/decrease by 0.25%	Increase/decrease by 7.7%
Rate of inflation*	Increase/decrease by 0.25%	Increase/decrease by 4.8%
Rate of salary growth	Increase/decrease by 0.25%	Increase/decrease by 1.3%
Longevity	Increase/decrease by 1 year	Increase/decrease by 2.1%

* Including the effect of an increase in the pension increase assumption and rate of salary growth of 0.25%.

Reconciliation of fair value of Scheme assets

	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000
At 1 April	7,320	8,190
Expected return on Scheme assets	600	708
Contributions paid by employer	1,161	1,136
Benefits paid	(201)	(235)
Actuarial gains (losses)	2,350	(2,479)
At 31 March	**11,230**	**7,320**

Actual return on Scheme assets

	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000
Actual return	**2,950**	**(1,771)**

Amount charged to Income and Expenditure Account

	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000
Current service cost	580	586
Interest on liabilities	557	536
Expected return on assets	(600)	(708)
Total operating charge	**537**	**414**

The FSCS expects to contribute £1,173,000 to its defined benefit pension plan during 2010/11.

Amount recognised in Statement of Total Recognised Gains and Losses (STRGL)

	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000
Actual return less expected return on assets	2,350	(2,479)
Experience gains arising on Scheme liabilities	(135)	24
Changes in assumptions underlying the present value of Scheme liabilities	(5,173)	789
Net actuarial loss recognised in the period	**(2,958)**	**(1,666)**

The liabilities of the Scheme are measured by discounting the best estimate of future cash flows to be paid out by the Scheme using the projected unit method. This amount is reflected in the Balance Sheet. The projected unit method is an accrued benefits valuation method in which the Scheme liabilities make allowance for projected earnings. The accumulated benefit obligation is an actuarial measure of the present value of benefits for service already rendered, but differs from the projected unit method in that it includes no assumption for future salary increases. At the Balance Sheet date, the accumulated benefit obligation was £13,781,000.

The FSCS has agreed with the Trustees that the funding objective is to aim to ensure the Scheme has sufficient and appropriate assets to cover its technical provisions (which are effectively the liabilities in respect of service already completed) under the Scheme Specific Funding regulations. The approach used must be prudent, taking into account the financial resources and ability of the FSCS to withstand any adverse experience.

The FSCS and the Trustees are in the process of agreeing the 1 April 2009 actuarial valuation, which is expected to be completed in the next few months. In the meantime, the latest finalised actuarial valuation available was as at 1 April 2006. On completion of the 2006 valuation the FSCS's ordinary contribution rate was increased, with effect from 1 April 2007, from 25.2% of pensionable salaries to 27.3% of pensionable salaries plus £90,000 p.a. in respect of expenses of administration, representing regular contributions. In addition, the FSCS agreed to contribute regular payments of £40,000 each month from April 2007 until March 2012, representing regular deficit contributions. The FSCS has agreed with the Trustees that it will aim to eliminate the deficit by March 2012. The FSCS and the Trustees will monitor funding levels and the progress of the deficit reduction on an annual basis.

The valuation of the Scheme's liabilities for accounting purposes has been carried out at a different date from the Scheme's last actuarial valuation carried out to determine the funding position, and using some different assumptions. Therefore, the figures quoted in this Note are different from those disclosed in the last actuarial valuation report, as would usually be expected. The figures set out in this Note are calculated according to the requirements of the accounting standard FRS 17; separate calculations will be carried out for the Trustees to monitor and control the funding of the Scheme using assumptions selected by the Trustees. The FSCS estimates the present value of the duration of the Scheme liabilities on average to fall due over 28 years.

The FSCS has recently begun consulting the employee members of the Scheme concerning a proposal to close the Scheme to the future accrual of benefits.

Five-year history of experience gains and losses

	2010	2009	2008	2007	2006
Present value of liabilities (£'000)	13,930	7,686	7,612	9,077	7,962
Fair value of assets (£'000)	11,230	7,320	8,190	7,700	6,617
Surplus (deficit) in Scheme (£'000)	(2,700)	(366)	578	(1,377)	(1,345)
Experience arising on Scheme's assets (£'000)	2,350	(2,479)	(1,145)	(113)	858
Percentage of Scheme's assets (%)	20.9	(33.9)	(14.0)	(1.5)	13.0
Experience gains and (losses) on Scheme's liabilities (£'000)	(135)	24	11	(231)	(114)
Percentage of present value of Scheme's liabilities (%)	(1.0)	0.3	0.1	(2.5)	(1.4)
Total amount recognised in statement of total recognised gains and (losses) (£'000)	(2,958)	(1,666)	1,344	(440)	(311)
Percentage of present value of Scheme's liabilities (%)	(21.2)	(21.7)	17.7	(4.8)	(3.9)

8 Directors' emoluments

Details of directors' emoluments are shown in the Directors' Report (pages 73 and 74).

9 Interest receivable and other income

	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000
Expected net return on pension scheme assets	43	172
	43	**172**

10 Management expenses and interest payable

Management expenses and interest payable allocated and recoverable from the classes, sub-classes, and third parties were as follows:

	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000
Deposit	359,119	439,092
General Insurance Provision	1,263	1,299
General Insurance Intermediation	2,264	452
Life and Pensions Provision	39	35
Life and Pensions Intermediation	3,986	6,492
Investment Fund Management	501	2,304
Investment Intermediation	9,889	3,566
Home Finance Intermediation	229	113
Amounts recoverable from classes and sub-classes	**377,290**	**453,353**
Amounts due from HM Treasury	–	**22,268**
Amounts due in respect of base costs	**11,146**	**4,560**

The amounts due in respect of base costs of £11,146,000 (2009: £4,560,000) relate to costs allocated on the basis of FSA periodic fees. In the previous year, these costs were included in the amounts recoverable from classes and sub-classes.

The amounts recoverable from classes and sub-classes of £377,290,000 (2009: £453,353,000) comprise management expenses of £28,850,000 (2009: £26,905,000) and interest payable of £348,440,000 (2009: £426,448,000), both recoverable from classes and sub-classes as shown in the Income and Expenditure Account.

The FSCS is engaged on work on behalf of HM Treasury and any related costs will be recharged to HM Treasury when agreed. These are not expected to be material.

11 Compensation payments relating to Specified Deposit Defaults

During the year, the FSCS has made compensation payments on behalf of the classes and sub-classes, for HM Treasury's own account and to the account of HM Treasury for amounts otherwise payable by the Icelandic Depositors' and Investors' Guarantee Fund (DIGF).[1] Compensation payments include the adjustments resulting from the validation process as described in Note 3 to the Class and Sub-class Accounts. The FSCS element of the compensation payments shown below are shown in the Class and Sub-class Accounts. Amounts paid on behalf of HM Treasury below are included within 'Amounts due from HM Treasury' in Note 13, as described above in compliance with the accounting policies. These are treated as amounts paid as agent and not passed through the Income and Expenditure Account.

1 Tryggingarsjóður innstæðueigenda og fjárfesta – established pursuant to Act No. 98/1999 of the Icelandic Parliament.

As at 31 March 2010, compensation payments in the year in respect of the Specified Deposit Defaults (SDDs)[2] and their allocation for funding responsibility were:

	HM Treasury £'000	HM Treasury for DIGF £'000	The FSCS £'000	31 March 2010 Total £'000	31 March 2009 Total £'000
Bradford & Bingley plc	–	–	(95,806)	(95,806)	15,750,315
Heritable Bank Plc	874	–	300	1,174	464,960
Kaupthing Singer & Friedlander Limited	151,104	–	307,765	458,869	2,399,546
Landsbanki Islands hf (Icesave)	131,194	177,133	198,625	506,952	3,905,180
London Scottish Bank Plc	10,425	–	90,002	100,427	90,201
Year ended 31 March 2010	**293,597**	**177,133**	**500,886**	**971,616**	–
Year ended 31 March 2009	**779,711**	**2,063,021**	**19,767,470**	–	**22,610,202**

2 Bradford & Bingley plc, Heritable Bank Plc, Kaupthing Singer & Friedlander Limited, Landsbanki Islands hf and its UK branch and brand Icesave, and London Scottish Bank Plc.

12 Fixed assets

	Computers £'000	Furniture and equipment £'000	Leasehold improvements £'000	Total £'000
Cost				
At 1 April 2009	2,051	1,335	2,856	6,242
Additions in the year	507	236	5	748
Disposals	–	(65)	–	(65)
At 31 March 2010	**2,558**	**1,506**	**2,861**	**6,925**
Accumulated depreciation				
At 1 April 2009	(1,764)	(897)	(1,627)	(4,288)
Charge for the year	(279)	(197)	(362)	(838)
Disposals	–	28	–	28
At 31 March 2010	**(2,043)**	**(1,066)**	**(1,989)**	**(5,098)**
Net book value at 31 March 2010	**515**	**440**	**872**	**1,827**
Net book value at 31 March 2009	**287**	**438**	**1,229**	**1,954**

13 Debtors

Amounts falling due within one year

	Note	31 March 2010 £'000	31 March 2009 £'000
Amounts due from the FSA	24	541	97
Levies receivable, net of provision			
Deposit		3	–
General Insurance Provision		240	235
General Insurance Intermediation		39	1
Life and Pensions Intermediation		365	3,232
Investment Fund Management		29	51
Investment Intermediation		80,965	38,282
Home Finance Intermediation		27	8
Net amounts due from classes and sub-classes			
Deposit		437,832	433,259
General Insurance Intermediation		4,951	–
Investment Fund Management		92	1,660
In respect of base costs		252	49
Amounts due from HM Treasury			
In respect of compensation payments		54,326	–
In respect of loan interest		–	22,268
Other debtors		113	163
Prepayments		868	852
		580,643	**500,157**

The amount due in respect of base costs of £252,000 (2009: £49,000) was included in net amounts due from classes and sub-classes in the previous year.

The £54,326,000 due from HM Treasury relates to compensation payments made on behalf of HM Treasury and DIGF not yet offset against loans. It is made up of £2,199,239,000 due from HM Treasury at 31 March 2009 (see below) less advances from HM Treasury in relation to Icesave of £156,507,000 (Note 15); plus compensation payments made during the year of £293,597,000 on behalf of HM Treasury (Note 11); plus £177,133,000 for DIGF (Note 11) less drawings offset against the loan of £2,459,136,000 (Note 17).

The debtors relating to levies receivable, net of provision, do not appear in the Class and Sub-class Accounts as these are recognised on a cash received basis (see Note 1(e) on page 111).

Included within the Investment Intermediation amount is the 2009/10 interim levy of £80,000,000 (2008/09: £38,000,000), raised on 30 March 2010 to cover funding, particularly in respect of Keydata Investment Services Limited, Pacific Continental Securities (UK) Limited, Square Mile Securities Limited, and other structured products claims.

Debtors: amounts falling due after more than one year

	Note	31 March 2010 £'000	31 March 2009 £'000
Amounts due from HM Treasury in respect of compensation payments		–	2,199,239
Amount due from the Deposit sub-class in respect of Dunfermline Building Society	16	400,000	–
Amounts due in respect of SDDs	17	19,209,535	20,144,654
		19,609,535	**22,343,893**

14 Cash at bank, overdraft, facilities and class and sub-class borrowings

As at 31 March 2010, the FSCS had facilities for business purposes of £77m, comprising a 364 day Sterling revolving credit facility of £75m, at a floating rate of interest based on LIBOR; and an overdraft facility of £2m at a fixed margin above bank rate. Since the Balance Sheet date revised credit facility agreements have been reached for £75m, of which £50m expires on 20 May 2011 and £25m expires on 11 May 2012, both with further Term-Out Loan options of three months from the expiry dates, which means all monies outstanding on the date of expiry can be repaid up to three months after that date.

	31 March 2010 £'000	31 March 2009 £'000
Cash at banks	10,811	651
Cash on short-term deposit	6,242	43,710
	17,053	44,361
Overdraft	(346)	(2,036)
	16,707	**42,325**

Cash book balances which include cheques or other effects which are drawn but not presented are shown as bank overdrafts above, and presented within Creditors on the Balance Sheet.

15 Creditors and accruals

Creditors: amounts falling due within one year

	31 March 2010 £'000	31 March 2009 £'000
Compensation payable	2,657	12,693
Levy payable		
Deposit	–	13
Levy accrued		
General Insurance Provision	180	309
General Insurance Intermediation	12	15
Life and Pensions Provision	2	7
Life and Pensions Intermediation	201	602
Investment Intermediation	23	32
Home Finance Intermediation	–	1
Levies due in respect of base costs	44	156
Net amounts due to classes and sub-classes		
General Insurance Provision	52,610	36,325
General Insurance Intermediation	–	870
Life and Pensions Provision	867	342
Life and Pensions Intermediation	11,039	13,170
Investment Intermediation	21,021	34,938
Home Finance Intermediation	1,224	828
Social security and other taxes	294	250
Accruals	4,158	5,553
Amounts due to HM Treasury relating to validation adjustments	1,766	1,746,295
Advances from HM Treasury relating to Icesave	–	156,507
Other creditors	4,802	1,123
	100,900	**2,010,029**

The levies due in respect of base costs of £44,000 (2009: £156,000) were included in levies due to classes and sub-classes in the previous year.

The amounts due to HM Treasury relating to validation adjustments at 31 March 2009 were the net estimated Balancing Payments arising from the Bradford & Bingley plc and Heritable Bank Plc deemed compensation payments made under the orders (see also Note 3 in the Class and Sub-class Accounts), plus time value of money interest adjustment. These, together with the advances from HM Treasury relating to Icesave, have now been converted to loans with HM Treasury (Note 17).

Creditors: amounts falling due after one year

	Note	31 March 2010 £'000	31 March 2009 £'000
Amounts due to HM Treasury – loans	17	19,324,742	20,465,532
		19,324,742	**20,465,532**

16 Provisions for liabilities and charges

	31 March 2010 £'000	31 March 2009 £'000
Dilapidations		
Opening balance	216	185
Increase in the year – charged to Income and Expenditure Account	41	31
Total	**257**	**216**
Dumfermline Building Society		
Opening balance	–	–
Increase in the year	400,000	–
Total	**400,000**	**–**
Total provisions		
Opening balance	216	185
Increase in the year	400,041	31
Total	**400,257**	**216**

Provision is made for dilapidations under the lease for the premises at 1 Portsoken Street, London (see Note 18), as above.

Following notice served by HM Treasury, the FSCS has an obligation under the Special Resolution Regime to contribute to the net costs of the resolution of Dunfermline Building Society, including interest, but after recoveries, which will be discharged through levies. Based on the best information available to the Directors, a provision of £400,000,000 has been made in the financial statements for the year ended 31 March 2010.

This amount will be due to HM Treasury and, as shown in Note 13, is recoverable from the Deposit class. However, the timing of the final outcome is uncertain but is not expected to be within 12 months of the Balance Sheet date. The final amount may be different and, once agreed, may, potentially, result in a material adjustment to the provision being required.

17 Loans

As a result of the SDDs, various arrangements were made during 2008/09 to obtain unsecured loans with HM Treasury and the Bank of England. The facilities with the Bank of England were subsequently refinanced to cover accumulated interest and principal by HM Treasury. Details of loans with HM Treasury are:

	Principal outstanding as at 31 March 2009 £'000	Drawdown from (and repayment to) HM Treasury £'000	Validation adjustments £'000	Recoveries £'000	Compensation payments on behalf of HM Treasury £'000	Principal outstanding as at 31 March 2010 £'000
Loan in respect of:						
Bradford & Bingley plc	14,000,000	–	1,658,944	–	–	15,658,944
Heritable Bank Plc	512,500	–	(44,598)	(162,299)	–	305,603
Kaupthing Singer & Friedlander Limited	2,760,684	(150,000)	282,682	(896,383)	(230,380)	1,766,603
Landsbanki Islands hf (Icesave)	3,092,348	530,000	–	–	(2,209,539)	1,412,809
London Scottish Bank Plc	100,000	100,000	–	–	(19,217)	180,783
	20,465,532	**480,000**	**1,897,028**	**(1,058,682)**	**(2,459,136)**	**19,324,742**

	Facility £'000	Interest outstanding as at 31 March 2010 £'000	Interest outstanding as at 31 March 2009 £'000
Loan in respect of:			
Bradford & Bingley plc	15,658,944	302,054	314,254
Heritable Bank Plc	305,603	6,268	10,587
Kaupthing Singer & Friedlander Limited	1,916,603	48,921	52,549
Landsbanki Islands hf (Icesave)	1,882,809	23,455	34,724
London Scottish Bank Plc	230,783	2,115	438
	19,994,742	**382,813**	**412,552**

Principal terms and conditions

During the year, the FSCS made drawings from HM Treasury which were used to pay compensation, some of which was on behalf of HM Treasury. Those amounts that were paid on behalf of HM Treasury were subsequently used to reduce the loan balances with HM Treasury.

FSCS has loan facilities agreed with HM Treasury for each default. Borrowings by the FSCS under these facilities are only repayable through recoveries or dividends from the estates of defaulted firms and levies on levy paying firms. Under the terms of the facilities, to the extent that loans are not repaid by the target repayment date of 31 March 2012, then an amortisation schedule will be agreed between HM Treasury and the FSCS based upon expected recovery and levy amounts, having taken account of prevailing market conditions at that time. There is therefore no fixed repayment date within these facilities and there is no obligation for the FSCS to raise compensation cost levies in relation to the SDDs in the period ending 31 March 2012.

Interest

Under the terms of the loans, interest accrued within a financial year (Interest Accrual Period) becomes due and payable six months after the last day of the Interest Accrual Period (being 1 October), and is calculated at 12 month LIBOR plus 30 basis points, adjusted monthly. Interest, and related management expenses levied by the FSCS in respect of any Interest Accrual Period in relation to the SDDs, is capped at £1bn per year for the period to 31 March 2012.

The interest figure as shown in the table above is the interest accrued on the principal.

The loan interest of £382,813,000 is recoverable from the Deposit class by way of a specific cost management expenses levy, and is payable to HM Treasury on 1 October 2010. This loan interest is made up of £348,408,000 for 2009/10 and an adjustment for 2008/09 of £34,405,000 resulting from the validation process.

18 Payments under lease agreements

Future minimum payments – operating leases

	Leases expiring		
	Between two and five years	Over five years	Total
Amounts payable in year to 31 March 2010	£'000	£'000	£'000
Office rental	–	1,043	1,043
Equipment rental	18	–	18
Total	**18**	**1,043**	**1,061**

The lease for the premises at 7th Floor, 1 Portsoken Street, London, is from 13 February 2001 to 21 June 2018, but the FSCS has the right to break the lease on 24 June 2012. The lease for the premises at 5th Floor, 1 Portsoken Street, London, is from 1 February 2006 to 23 June 2018, but the FSCS has the right to break the lease on 30 June 2012.

19 Reserves

	Note	31 March 2010 £'000	31 March 2009 £'000
At 1 April		(366)	578
Excess of income over expenditure on ordinary activities after tax		624	722
Actuarial loss on pension scheme liabilities	7	(2,958)	(1,666)
At 31 March		**(2,700)**	**(366)**

20 Reconciliation of the excess income over expenditure on ordinary activities before interest and tax to net cash inflow from operating activities

The statement set out below relates cash flows to items shown in the Income and Expenditure Account and Balance Sheet movements:

	Note	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000
Excess of income over expenditure on ordinary activities before interest and tax		349,064	449,446
Interest transfer from classes and sub-classes		–	8
		349,064	449,454
Depreciation	12	838	630
Loss on disposal	12	37	–
Decrease (increase) in debtors		2,631,604	(22,838,664)
(Decrease) increase in creditors		(1,870,773)	1,960,320
Increase in provisions for liabilities and charges		400,041	31
Net cash inflow (outflow) from operating activities		**1,510,811**	**(20,428,229)**

21 Returns on investments and servicing of finance

	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000
Interest payable (see Notes 5 and 17)	(394,891)	(8)
	(394,891)	**(8)**

22 Reconciliation of net cash flow to movement in net debt

	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000
Decrease (increase) in cash at bank and short-term deposits	25,618	(36,697)
(Decrease) increase in loans	(1,140,790)	20,465,532
Cash used to repay sub-class borrowings	–	(199)
(Decrease) increase in net debt	(1,115,172)	20,428,636
Net funds at 31 March 2009	20,423,207	(5,429)
Net funds at 31 March 2010	**19,308,035**	**20,423,207**

23 Analysis of change in net funds

	Opening balance £'000	Cash inflows (outflows) £'000	At 31 March 2010 £'000
Cash at bank and short-term deposits	44,361	(27,308)	17,053
Bank overdraft	(2,036)	1,690	(346)
	42,325	**(25,618)**	**16,707**

24 Transactions with related parties

During the year, the FSCS entered into transactions with the FSA as a related party.

The FSA appoints, and has the right to remove, directors to the Board of the FSCS and it establishes the rules under which the FSCS became operative as from midnight on 30 November 2001. The FSA is considered to be a related party but not a controlling party.

During the year, the FSA provided an agency service to the FSCS to collect tariff data, issue levy invoices and collect levy monies on its behalf. Levy invoices, net of credit notes, were raised for £635,828,000 (2009: £68,022,000) including £405,488,000 raised as a levy for the interest on the loans relating to the SDDs on 29 July 2009 and £79,473,000 raised as a further interim levy on 30 March 2010. Related collections of £595,699,000 (2009: £26,598,000) were received. The charge for the service was £287,500 (2009: £308,000). The charge for 2009 and earlier years included VAT which has been recovered this year, totalling £159,000. The FSA also levied a charge of £9,000 to the FSCS for the FSCS's proportion of professional costs incurred by the FSA in recovering the VAT.

Overall, payments, less receipts of £595,408,000 (2009: £26,564,000) were made by the FSA to the FSCS, leaving amounts due from the FSA to the FSCS at 31 March 2010 of £541,000 (2009: £97,000).

During the year, the FSCS seconded a staff member to the FSA. The charge invoiced to the FSA for this member of staff was £28,000 (2009: £97,000).

The FSA is a party to the lease agreement for the FSCS's premises at the 7th Floor, 1 Portsoken Street, London (see Note 18) as guarantor of performance of the lease.

25 Capital commitments

Capital commitments authorised and contracted for but not provided in the financial statements is £nil (2009: £nil).

26 Contingencies

The FSCS may have contingent liabilities in respect of legal claims arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from the contingent liabilities to the FSCS. In any event, any liabilities that crystallise would normally be recoverable from the appropriate class or sub-class and would not fall to the FSCS as designated Scheme Manager.

The FSCS has received a substantial number of claims from investors in structured investment products marketed by Keydata Investment Services Limited (Keydata) and further such claims are anticipated. The FSCS raised an interim levy (the ‘Levy’) on the Investment Intermediation SD02 levy sub-class in order to fund compensation costs and management expenses in respect of those claims. That decision was made following advice from external lawyers and Leading Counsel. Approximately 220 members of the SD02 levy sub-class (the ‘Claimants’) have commenced proceedings in the High Court by making an application for permission to bring a claim for judicial review of the FSCS’s decision to impose the Levy on that sub-class. The Claimants argue that the Levy should have been imposed on the Investment Fund Managers SD01 sub-class rather than the SD02 sub-class and that the decision of the FSCS to impose the Levy on the SD02 sub-class should be quashed. We consider that the decision was in accordance with our rules and are defending the proceedings on that basis.

27 Going concern

The directors are satisfied that the FSCS is in a position to meet its obligations as they fall due and, as such, the FSCS is a going concern and it is appropriate that these financial statements are prepared under the going concern accounting convention.

Financial Services Compensation Scheme: Classes and Sub-classes Financial Statements for the year ended 31 March 2010

The powers of the FSA under the FSMA became effective as at midnight on 30 November 2001.

As explained in Chapter 6 of the FEES Manual of the FSA's Handbook, for funding purposes, and effective from 1 April 2008, the FSCS is split into broad classes, comprising: Deposit; General Insurance; Life and Pensions; Investment; and Home Finance (FEES 6.5.7R and FEES 6 Annex 3). Within each broad class there is one or more sub-class. The FSCS must keep accounts which show:

1) the funds held to the credit of each class and sub-class; and
2) the liabilities of that class or sub-class.

The financial statements for the FSCS's classes and sub-classes for the year ended 31 March 2010, with comparatives, including the equivalent fund balances for the year ended 31 March 2009, are set out as follows:

Statement of disclosure of information to auditors

Each of the persons who is a director at the date of this report confirms that:

1) so far as each of them is aware, there is no information relevant to the audit of the classes and sub-classes' Financial Statements for the year ended 31 March 2010 of which the auditors are unaware; and

2) the director has taken all steps that he/she ought to have taken in his/her duty as a director in order to make him/herself aware of any relevant audit information and to establish that the classes and sub-classes' auditors are aware of that information.

The directors are responsible for preparing financial statements for each financial year, in accordance with the requirements set out below:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the classes and sub-classes will continue in business.

The directors confirm that the financial statements comply with these requirements.

Statement of the directors' responsibilities in respect of the financial statements

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the class and sub-class transactions and disclose with reasonable accuracy at any time the financial position of the classes and sub-classes, and to enable them to ensure that the financial statements comply with the requirements. They are also responsible for safeguarding the assets of the classes and sub-classes and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the UK governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

By order of the Board

Mark Thomas
Secretary
15 June 2010

The FSCS Classes and Sub-classes
Statement of Fund Movements for the year ended 31 March 2010

Funding sub-class code	Total		Compensation costs net of recoveries relating to Specified Deposit Defaults		Deposit SA01		General Insurance Provision SB01	
	2009/10	2008/09	2009/10	2008/09	2009/10	2008/09	2009/10	2008/09
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Compensation and interest	(1,105,348)	(19,860,207)	(500,886)	(19,767,470)	(400,940)	(538)	(59,773)	(50,791)
Exchange gain	785	36	–	–	756	36	29	–
Recoveries received	1,073,579	17,967	1,058,821	–	176	258	10,861	10,781
	(30,984)	(19,842,204)	557,935	(19,767,470)	(400,008)	(244)	(48,883)	(40,010)
Attributable management costs								
Specific costs	(28,850)	(26,905)	–	–	(10,679)	(12,644)	(1,263)	(1,299)
SDD interest	(348,440)	(426,448)	–	–	(348,440)	(426,448)	–	–
	(377,290)	(453,353)	–	–	(359,119)	(439,092)	(1,263)	(1,299)
Interest received								
Gross before tax	257	4,168	–	–	182	270	103	3,258
Tax at 28%	(67)	(1,158)	–	–	(48)	(75)	(27)	(906)
	190	3,010	–	–	134	195	76	2,352
Levies received	585,437	127,948	–	–	424,803	4,053	66,658	73,566
Funds brought forward	(20,162,771)	1,828	(19,767,470)	–	(433,260)	1,828	34,609	–
Funds carried forward	**(19,985,418)**	**(20,162,771)**	**(19,209,535)**	**(19,767,470)**	**(767,450)**	**(433,260)**	**51,197**	**34,609**

	General Insurance Intermediation SB02		Life and Pensions Provision SC01		Life and Pensions Intermediation SC02		Investment Fund Management SD01		Investment Intermediation SD02		Home Finance Provision SE01		Home Finance Intermediation SE02	
	2009/10	2008/09	2009/10	2008/09	2009/10	2008/09	2009/10	2008/09	2009/10	2008/09	2009/10	2008/09	2009/10	2008/09
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
	(12,313)	(134)	(7)	–	(13,501)	(17,621)	(923)	(5,922)	(116,859)	(17,436)	–	–	(146)	(295)
	–	–	–	–	–	–	–	–	–	–	–	–	–	–
	1	1	–	–	688	700	21	77	3,011	6,150	–	–	–	–
	(12,312)	(133)	(7)	–	(12,813)	(16,921)	(902)	(5,845)	(113,848)	(11,286)	–	–	(146)	(295)
	(2,264)	(452)	(39)	(35)	(3,986)	(6,492)	(501)	(2,304)	(9,889)	(3,566)	–	–	(229)	(113)
	–	–	–	–	–	–	–	–	–	–	–	–	–	–
	(2,264)	(452)	(39)	(35)	(3,986)	(6,492)	(501)	(2,304)	(9,889)	(3,566)	–	–	(229)	(113)
	1	37	(1)	(7)	20	1,572	(3)	(881)	(47)	(53)	–	–	2	(28)
	–	(10)	–	2	(5)	(437)	1	245	13	15	–	–	(1)	8
	1	27	(1)	(5)	15	1,135	(2)	(636)	(34)	(38)	–	–	1	(20)
	7,979	1,424	571	382	17,420	31,612	3,000	7,074	64,252	8,592	–	–	754	1,245
	866	–	342	–	9,334	–	(1,711)	–	(6,298)	–	–	–	817	–
	(5,730)	**866**	**866**	**342**	**9,970**	**9,334**	**(116)**	**(1,711)**	**(65,817)**	**(6,298)**	**–**	**–**	**1,197**	**817**

The FSCS Classes and Sub-classes
Statement of Assets and Liabilities at 31 March 2010

Funding sub-class code	Total		Compensation costs net of recoveries relating to SDDs		Deposit SA01		General Insurance Provision SB01	
	2009/10	2008/09	2009/10	2008/09	2009/10	2008/09	2009/10	2008/09
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Current assets								
Net amounts due from the FSCS	65,108	48,059	–	–	–	–	52,370	36,090
Term deposits and cash at bank	76,085	435,208	–	434,955	75,702	2	383	251
	141,193	483,267	–	434,955	75,702	2	52,753	36,341
Current liabilities								
Taxation receivable (payable)	109	(230)	–	–	76	(15)	46	(180)
Net amounts due to the FSCS	(502,868)	(438,302)	–	–	(437,835)	(433,247)	–	–
Bank overdrafts	(14,317)	(62,852)	–	(57,771)	(5,393)	–	(1,602)	(1,552)
	(517,076)	(501,384)	–	(57,771)	(443,152)	(433,262)	(1,556)	(1,732)
Long-term liabilities								
Net amounts due to the FSCS	(19,609,535)	(20,144,654)	(19,209,535)	(20,144,654)	(400,000)	–	–	–
Total net assets (liabilities)	**(19,985,418)**	**(20,162,771)**	**(19,209,535)**	**(19,767,470)**	**(767,450)**	**(433,260)**	**51,197**	**34,609**

	General Insurance Intermediation SB02		Life and Pensions Provision SC01		Life and Pensions Intermediation SC02		Investment Fund Management SD01		Investment Intermediation SD02		Home Finance Provision SE01		Home Finance Intermediation SE02	
	2009/10	2008/09	2009/10	2008/09	2009/10	2008/09	2009/10	2008/09	2009/10	2008/09	2009/10	2008/09	2009/10	2008/09
	£’000	£’000	£’000	£’000	£’000	£’000	£’000	£’000	£’000	£’000	£’000	£’000	£’000	£’000
	–	869	867	342	10,674	9,938	–	–	–	–	–	–	1,197	820
	–	–	–	–	–	–	–	–	–	–	–	–	–	–
	–	869	867	342	10,674	9,938	–	–	–	–	–	–	1,197	820
	3	(2)	(1)	–	9	(87)	(3)	49	(21)	3	–	–	–	2
	(4,990)	–	–	–	–	–	(99)	(1,711)	(59,944)	(3,344)	–	–	–	–
	(743)	(1)	–	–	(713)	(517)	(14)	(49)	(5,852)	(2,957)	–	–	–	(5)
	(5,730)	(3)	(1)	–	(704)	(604)	(116)	(1,711)	(65,817)	(6,298)	–	–	–	(3)
	–	–	–	–	–	–	–	–	–	–	–	–	–	–
	(5,730)	**866**	**866**	**342**	**9,970**	**9,334**	**(116)**	**(1,711)**	**(65,817)**	**(6,298)**	**–**	**–**	**1,197**	**817**

The FSCS Classes and Sub-classes
Statement of Base Costs and Related Levies at 31 March 2010[1]

FSA Fee Block

Base Cost Fund Account	Total		Deposit takers A001		General Insurance A003		Life Insurance A004		Fund managers, not holding money A007		Managers of an AUT, ACD A009	
	2009/10	2008/09	2009/10	2008/09	2009/10	2008/09	2009/10	2008/09	2009/10	2008/09	2009/10	2008/09
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Levies received	10,830	4,668	3,081	1,005	607	120	1,425	599	944	577	179	109
Base costs allocated	(11,146)	(4,560)	(3,221)	(933)	(624)	(277)	(1,503)	(736)	(946)	(485)	(172)	(95)
Balance at 1 April 2009	108	–	72	–	(157)	–	(137)	–	92	–	14	–
Funds carried forward	**(208)**	**108**	**(68)**	**72**	**(174)**	**(157)**	**(215)**	**(137)**	**90**	**92**	**21**	**14**
Current assets												
Net amounts due from the FSCS	249	402	–	72	–	–	–	–	90	92	21	14
	249	402	–	72	–	–	–	–	90	92	21	14
Current liabilities												
Net amounts due to the FSCS	(457)	(294)	(68)	–	(174)	(157)	(215)	(137)	–	–	–	–
	(457)	(294)	(68)	–	(174)	(157)	(215)	(137)	–	–	–	–
Total net assets/ (liabilities)	**(208)**	**108**	**(68)**	**72**	**(174)**	**(157)**	**(215)**	**(137)**	**90**	**92**	**21**	**14**

Approved for and on behalf of the Board of Financial Services Compensation Scheme Limited, as designated Scheme Manager of the classes and sub-classes on 15 June 2010.

David Hall
Chairman

1 Base costs and related levies are no longer allocated to classes and sub-classes as in previous years. Instead they are shown on a separate statement according to the FSA Fee Blocks to which they relate. The comparatives have been restated to reflect this.

FSA Fee Block

	Dealers A010		Brokers holding client money A012		Brokers not holding client money A013		Corporate finance A014		Mortgage brokers A018		Insurance intermediaries A019	
	2009/10	2008/09	2009/10	2008/09	2009/10	2008/09	2009/10	2008/09	2009/10	2008/09	2009/10	2008/09
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
	758	266	741	351	1,378	741	238	112	358	198	1,121	590
	(757)	(256)	(753)	(324)	(1,408)	(665)	(232)	(107)	(381)	(159)	(1,149)	(523)
	10	–	27	–	76	–	5	–	39	–	67	–
	11	**10**	**15**	**27**	**46**	**76**	**11**	**5**	**16**	**39**	**39**	**67**
	11	10	15	27	46	76	11	5	16	39	39	67
	11	10	15	27	46	76	11	5	16	39	39	67
	–	–	–	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–	–	–	–
	11	**10**	**15**	**27**	**46**	**76**	**11**	**5**	**16**	**39**	**39**	**67**

The FSCS: Notes to the Classes and Sub-classes Financial Statements for the year ended 31 March 2010

1 Accounting policies

The financial statements have been prepared in accordance with the following accounting policies:

a) Basis of accounting

The FEES Manual requires the FSCS to keep accounts which show the funds held to the credit of each broad class and sub-class and the liabilities of that broad class and sub-class.

The financial statements have been prepared under the historical cost convention and on the basis that the Financial Services Compensation Scheme Limited, as the designated Scheme Manager, will exercise its responsibilities under the FSMA and the FEES Manual to recover management expenses and compensation costs on behalf of the broad classes and sub-classes, as defined for funding purposes in the FSA Handbook. The financial statements have been prepared on a going concern basis in accordance with Note 27 of the FSCS's financial statements on page 101 and:

- Section 218 of the Financial Services and Markets Act 2000;
- the FSA Handbook (in particular rule COMP 2.2.5);
- the FSA-FSCS Memorandum of Understanding (sections 24 to 26); and
- the accounting policies set out here and overleaf.

The five broad classes are classified based on identifiable industry sectors:

- Deposit;
- General Insurance;
- Life and Pensions;
- Investment; and
- Home Finance.

Each broad class is divided into two sub-classes divided along provider and intermediation lines with the exception of the Deposit class.

The accounting policies have been selected by the designated Scheme Manager.

b) Compensation costs

These costs, which include interest paid to claimants, comprise deemed compensation (see Note 3), payments made to claimants and amounts for offers which have been made, are due and accepted and, for reinstatement cases, fully valued, but which have not been paid at the Balance Sheet date. No account has been taken of compensation costs in respect of offers accepted after the Balance Sheet date.

c) Recoveries

Recoveries are credited to funds when notification is received in respect of class and sub-class dividends from liquidators/provisional liquidators, or notified and agreed in respect of other recoveries, which have not been received by the Balance Sheet date. Where no notification is received, recoveries are credited on receipt.

d) Management expenses

Management expenses comprise base costs, being the costs of running the classes and sub-classes, and specific costs, which are the remaining costs which cover the handling and payment of compensation. The specific costs are allocated by the FSCS to each class and sub-class and in accordance with the levy principles contained within FEES Manual 6.4.5, 6.4.6 and 6.4.7. The base costs are not allocated to classes and sub-classes but are shown against the FSA Fee Blocks. This is a change in presentation from the previous year when the base costs were allocated to classes and sub-classes. The comparatives have accordingly been amended.

e) Levies

The FSCS raises levies, on behalf of the classes and sub-classes, which are credited to the funds on a cash received basis. Levies refunded are debited on payment. The levy relating to the base cost element of the management expenses has been credited to the relevant FSA Fee Block, on the basis previously in use, in the Class and Sub-class accounts. This is a change in presentation from the previous year when the base cost levy was allocated to classes and sub-classes and the comparatives have accordingly been amended.

f) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the Balance Sheet date. All differences are taken to the Statement of Fund Movements.

g) Legal challenges and costs

On occasion, legal proceedings are threatened or initiated against or by the FSCS. Provision is made for the estimated full cost in respect of any such proceedings, as specific costs where applicable, where at the end of the year it is more likely than not that there is an obligation which will require to be settled.

h) Cash flow

No statement of cash flow is prepared because, in the opinion of the directors, this would not provide any useful information in addition to that already provided in the Statement of Fund Movements, and Statement of Assets and Liabilities.

i) Taxation

Interest income is recognised gross of tax. The related tax on interest income is charged to the Statement of Fund Movements.

j) Estimation uncertainties

As designated Scheme Manager, the FSCS is required to prepare Class and Sub-class Financial Statements. In relation to these financial statements, drawn up in accordance with the accounting policies above, there are no areas of key estimation uncertainty, beyond those described in Note 3 of the FSCS's financial statements.

k) Special Resolution Regime

The Banking Act 2009 created a Special Resolution Regime (SRR) which gives the Tripartite Authorities a statutory framework providing tools for dealing with distressed banks and building societies. Under the Act, the FSCS may be required to contribute to the costs of the SRR, but no more than the cost the FSCS would have incurred if the relevant institution had been subject to insolvency and an FSCS depositor payout. Any such costs, although initially obligations on the Scheme Manager, are recoverable from the classes or sub-classes and will be funded through levies.

Such costs are only recognised in the financial statements when a reliable estimate can be made; otherwise they are disclosed as a contingency.

2 Compensation costs

Payments to valid claimants are made in accordance with the FEES Manual and are summarised within class and sub-class records by type of claim and defaulting firm. Extracts from these summaries are shown within the Annual Report and further details may be obtained from the FSCS's Company Secretary and from its website. A number of claims relate to firms which were handled previously by former schemes and details of these are also available from the FSCS's Company Secretary.

A summary of compensation costs for the Specified Deposit Defaults of £500,886,000 made up of validation adjustments of £187,373,000 and manual payments of £313,513,000 is shown below.

	Year ended 31 March 2009 £'000	Validation adjustments £'000	The FSCS manual payments £'000	Year ended 31 March 2010 £'000
Bradford & Bingley plc	15,750,315	(95,806)	–	15,654,509
Heritable Bank Plc	464,285	141	159	464,585
Kaupthing Singer & Friedlander Limited	2,274,256	283,038	24,727	2,582,021
Landsbanki Islands hf (Icesave)	1,198,666	–	198,625	1,397,291
London Scottish Bank Plc	79,948	–	90,002	169,950
	19,767,470	**187,373**	**313,513**	**20,268,356**

3 Deemed compensation costs

Compensation costs include amounts paid under various Orders during the previous year and are referred to as deemed compensation.

These amounts are subject to validation as set out in the Orders, to assess the total amounts of compensation that would have been paid to qualifying claimants. Once the validation process is finalised, Balancing Payments will be made under the Orders. The validation process has now been completed and the brought forward deemed compensation amounts have been adjusted, as shown above as 'Validation adjustments', to reflect the latest position. Details are as follows:

- Bradford & Bingley plc – At 31 March 2009, we estimated that the validation process would result in a Balancing Payment of £1,750,315,000, increasing the original deemed compensation to £15,750,315,000. The validation exercise has now been completed and the final result is a deemed compensation figure of £15,654,509,000.
- Heritable Bank Plc – At 31 March 2009 we estimated that the validation process would result in a Balancing Receipt of £43,000,000, reducing the original deemed compensation to £457,000,000. The validation exercise has now been completed and the final result is a deemed compensation figure of £457,141,000.
- Kaupthing Singer & Friedlander Limited – At 31 March 2009, we were not able to estimate the Balancing Adjustment. The validation exercise is now completed and the final result is a deemed compensation figure of £2,516,866,000.

Recoveries are accounted for within the Class and Sub-class Financial Statements when received.

As explained in Notes 11 and 17 to the FSCS financial statements, the Specified Deposit Default compensation costs, including net deemed compensation costs, are funded through borrowings. The principal is repayable through recoveries with any remaining balance by levies. Until the amortisation schedule is agreed in 2012, it is not possible to say which class or sub-class, if any, will bear that levy.

The FSCS is engaged in work on behalf of HM Treasury. Related costs will be recharged to HM Treasury when agreed. These are not expected to be material.

4 Management expenses

Management expenses charged by the FSCS, the Scheme Manager, to the classes and sub-classes include payments made in the year for the FSCS pension scheme. Administrative expenses of the FSCS, however, reflect FRS 17 adjustments with a charge for the current service cost in the year. This treatment ensures current funding of the payments as and when they are made.

As stated above (Note 1d), management expenses are allocated to classes and sub-classes and FSA fee blocks under the rules within the FEES Manual, chapter 6.

5 Interest received

Interest received comprises:

	Rate	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000
Term deposits	Available money market rates	34	3,991
Other bank accounts	Available rates	223	169
Sub-class borrowings	Bank of England's bank rate	–	8
		257	**4,168**

6 Levies received

Levy invoice amounts and cash receipts arise mainly from the transactions carried out under agreement for the FSCS by the FSA.

7 Term deposits and cash at banks

Cleared money at banks is placed on overnight deposit, within strict limits and rules as laid down and reviewed regularly by the FSCS Board.

Cashbook balances, which include cheques or other effects which are drawn but not presented, are shown as bank overdrafts within the Classes and Sub-classes Statement of Assets and Liabilities.

As at 31 March 2010, the FSCS is a party to various joint accounts with claims administration companies involved with the Insurance Provision sub-class to make payments to policyholders. The balances of these accounts at 31 March 2010 of £383,000 (2009: £251,000) are included within Term deposits and cash at banks in the Insurance Provision sub-class Statement of Asset and Liabilities.

8 Contingencies

The FSCS may have contingent liabilities in respect of legal claims arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from the contingent liabilities to the FSCS. In any event, any liabilities that crystallise would normally be recoverable from the appropriate class or sub-class and would not fall to the FSCS as designated Scheme Manager.

The FSCS has received a substantial number of claims from investors in structured investment products marketed by Keydata Investment Services Limited (Keydata) and further such claims are anticipated. The FSCS raised an interim levy (the 'Levy') on the Investment Intermediation SD02 levy sub-class in order to fund compensation costs and management expenses in respect of those claims. That decision was made following advice from external lawyers and Leading Counsel. Approximately 220 members of the SD02 levy sub-class (the 'Claimants') have commenced proceedings in the High Court by making an application for permission to bring a claim for judicial review of the FSCS's decision to impose the Levy on that sub-class. The Claimants argue that the Levy should have been imposed on the Investment Fund Management SD01 rather than the SD02 sub-class and that the decision of FSCS to impose the Levy on the SD02 sub-class should be quashed. We consider that the decision was in accordance with our rules and are defending the proceedings on that basis.

9 Special Resolution Regime – Dunfermline Building Society

On 30 March 2009, the Bank of England exercised 'stabilisation powers' under the Banking Act 2009 in respect of Dunfermline Building Society, including through the Dunfermline Building Society Property Transfer Instrument 2009 by which certain property, rights and liabilities of Dunfermline Building Society were transferred to the Nationwide Building Society. HM Treasury served notice on the FSCS, revised during the year, placing an obligation on the FSCS to contribute to the net costs of the resolution, including interest, but after recoveries, which will be discharged by the FSCS through levies.

Based on the best information available to the directors, a provision of £400,000,000 has been made in the financial statements of the Scheme Manager for the year ended 31 March 2010 and is recoverable from the Deposit class. In the financial statements of the classes and sub-classes, this amount has been shown as a creditor in the Deposit class, due to the FSCS after more than one year, and charged to compensation costs in the same class.

However, the final outcome may be different and the final amounts, once agreed, may, potentially, result in a material adjustment to the provision being required in the Scheme Manager. It is, however, unlikely to exceed £1.54bn, the current estimated cost of the resolution. In addition, interest at a rate of 4.5% will be applied in the calculation of the contribution, both to the costs of resolution and to the FSCS recovery amount. When the FSCS is notified by HM Treasury of the final contribution required, the creditor will be updated accordingly and the corresponding change made to the compensation cost.

Report of the Independent Auditors of the Financial Services Compensation Scheme to the Financial Services Authority

We have audited the financial statements of the Financial Services Compensation Scheme Classes and Sub-classes (Classes and Sub-classes) for the year ended 31 March 2010 which comprise the Classes and Sub-classes Statement of Fund Movements, the Classes and Sub-classes Statement of Assets and Liabilities, the Classes and Sub-classes Statement of Base Costs and Related Levies, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 103, the FSCS is responsible for the preparation of the financial statements in accordance with applicable law.

Our responsibility is to audit the financial statements in accordance with International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Financial Services Authority, in accordance with:

- Section 218 of the Financial Services and Markets Act 2000;
- the FSA Handbook (in particular rule COMP 2.2.5); and
- the FSA-FSCS Memorandum of Understanding (sections 24 to 26)

and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements are properly prepared in accordance with:

- Section 218 of the Financial Services and Markets Act 2000;
- the FSA Handbook (in particular rule COMP 2.2.5);
- the FSA-FSCS Memorandum of Understanding (sections 24 to 26); and
- the accounting policies set out on pages 110 and 111.

We also report to you if, in our opinion, the FSCS, as designated Scheme Manager, has not kept adequate accounting records for the Classes and Sub-classes, or if we have not received all the information and explanations we require for our audit.

Basis of audit opinion

We conducted our audit in accordance with the International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Classes' and Sub-classes' circumstances, consistently applied and appropriately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements for the year ended 31 March 2010 have been properly prepared in accordance with:

- Section 218 of the Financial Services and Markets Act 2000;
- the FSA Handbook (in particular rule COMP 2.2.5);
- the FSA-FSCS Memorandum of Understanding (sections 24 to 26); and
- the accounting policies set out on pages 110 and 111.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
15 June 2010

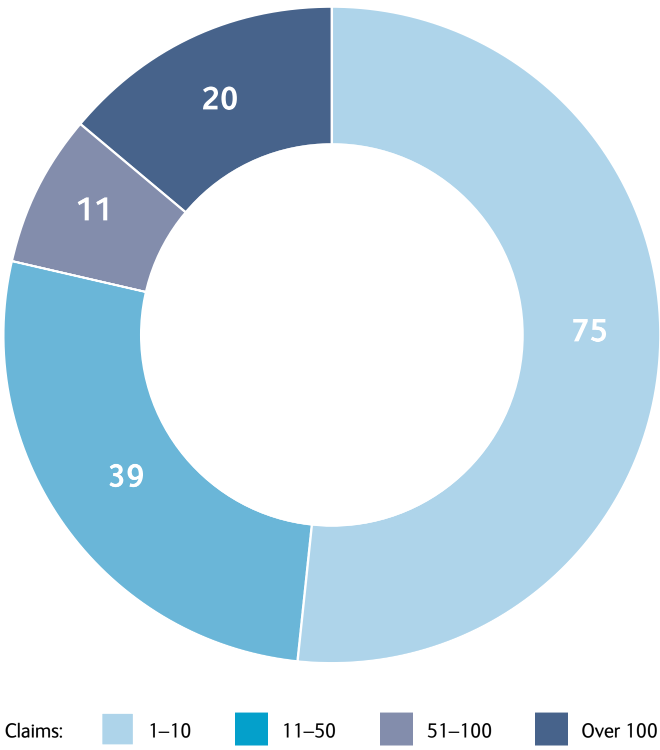
Section 9
Default Declarations and Statistics

This section breaks down the numbers and types of default that were made during 2009/10.

During 2009/10 145 declarations of default were made by the FSCS, compared with 119 in 2008/09.

- 137 defaults were in relation to claims arising from investment, home finance, general insurance and pension business undertaken by authorised firms. Many of these firms were authorised to undertake more than one type of business.
- Eight credit unions were also declared in default in 2009/10 and are included in the total number of declarations.

Firms in default by number of claims



- Additionally, four firms were deemed to be in default under the rules relating to claims arising from the Investors' Compensation Directive (ICD) business and are not included in the total.
- As at 31 March 2010, the total number of firms declared in default by the FSCS since December 2001 is 2,149.

What does being 'in default' mean?

Before the FSCS can consider claims for compensation against a firm, we must determine the financial position of the firm responsible for the claim. The FSCS can consider claims only if the firm is unable, or likely to be unable, to meet claims against it, which we describe as being 'in default'.

An ICD investment business default can be triggered either by the formal court-ordered insolvency of the subject firm or by decision of the regulating body: in the UK, this is the FSA.

Firms declared in default by the FSCS and the four ICD defaults determined in 2009/10 are listed on pages 120–123.

Default declarations – questions the FSCS seeks to answer

Who is legally liable for the claim?

The firm or individual a consumer has dealt with may not be the firm or individual that is legally liable for dealing with claims. The FSCS must establish who is liable for any claim and then that firm's ability to pay claims, if these claims are proven.

What type of firm is it?

The FSCS deals with claims against sole traders, partnerships, limited partnerships, and limited and unlimited companies.

What is the status of the firm?

The approach the FSCS takes to establishing a firm's financial position and its ability to deal with claims made by former clients will depend on the firm's legal status. Many firms are no longer authorised (described as 'departed'). The FSCS looks at firms that are trading, dormant, dissolved or in a formal insolvency; and at owners of unincorporated firms where one or more individuals may be in bankruptcy or unable to meet claims against them.

Where are the owners?

It is generally quite straightforward to find out information about a limited company and to determine its financial position. However, many of the departed firms we investigate are sole traders or partnerships. If a firm stopped trading many years ago, locating its owners can be difficult and time-consuming, especially with partnerships where ownership may have changed many times over the firm's trading life.

Is the firm in default?

The FSCS will establish whether a firm is in default by comparing the total value of liabilities, including established and contingent claims, with the assets available to the firm or its principals, including any professional indemnity (PI) cover that may have been arranged. How we establish whether a firm is in default will depend on the type of firm involved.

Limited companies
To establish whether a limited company is in default, we will look at the value of the company's assets and the availability of PI cover, if any, and compare these with its liabilities. We also need to find out about the status of the firm: whether the firm is still trading, has been dissolved or is insolvent. We can usually get this information from Companies House, and we liaise with insolvency practitioners (if appointed).

We also need to establish whether any related companies have responsibility for, or wish to take responsibility for, claims.

Partnerships and sole traders
If the firm is not a limited company (or limited partnership) its former partners or owners (its principals) are likely to be personally responsible for any claims against it. The FSCS must establish the status of the firm (for example whether it is still trading) and whether the principals are liable for some or all claims and have sufficient assets or means to meet claims. We ask the principals to complete a statement of assets and liabilities to assist us in determining whether they are unable to pay claims against the firm.

We also search public records to find out whether the principals are, or have been, bankrupt, are deceased, or whether the principals are likely to have sufficient assets to meet claims. Assets can include the share of the equity in a house or overseas property, any financial or business assets and any professional indemnity insurance.

We regularly publish lists of firms that have been declared in default and have a searchable default database on our website at www.fscs.org.uk.

Firms in default 2009/10

Legal name	Default date
1st Stop Finance Limited	11-Mar-10
A Hadaway (formerly t/a ALH Financial Services and ALH Insurance Services)	22-Feb-10
A R Johnson & Co Limited (formerly t/a Greenway Middleton & Co Limited and J.R. Greenway & Co Limited)	26-Oct-09
A.I.T. Financial Solutions (UK) Limited	19-Mar-10
Acorn Financial Services (Glasgow) LLP	17-Mar-10
Active Mortgage Management Plc	22-Feb-10
Alexander Anthony Investments	10-Feb-10
Any Mortgage U Want Limited	17-Mar-10
APS Swindon Limited (formerly t/a APS Advisory Limited)	17-Dec-09
Arc Capital & Income Plc (formerly t/a Nvesta plc, Nvesta Limited, Eurolife Fund Managers Limited & Tower Fund Managers Limited)	26-Oct-09
Arcanum Limited t/a Able 2 Buy and Brighter Loans	10-Feb-10
Ascension Securities Limited	13-Jan-10
Asset Loans Limited	08-Sep-09
Award Financial Services Limited	06-Jan-10
B P Financial Services	08-Mar-10
B.F.S. Direct Limited	11-Mar-10
Bates Investment Services Limited (formerly t/a Bates Investment Services Plc)	14-Jan-10
Bollington Financial Services Limited	30-Sep-09
C Pugh t/a Marwell Scot & Co	17-Mar-10
C. F. Bartlett & Company Limited	24-Sep-09
Capital Insurance Services Limited	05-Jan-10
Caversham Buchanan Limited	11-Mar-10
Central Mortgages UK Limited	25-Feb-10
Chatterton Bennett Insurance Services (also t/a Chatterton Bennett Life & Financial Services)	22-May-09
Chepstow Financial Services	16-Nov-09
Coldicott Financial Services Limited (formerly t/a David Coldicott (Mortgage & Pension Services) Limited)	26-Jun-09
Contact4u Limited	17-Dec-09
Crystal Finance Limited	16-Dec-09
Dean House Financial Services Limited	17-Dec-09
Defined Returns Limited	14-Oct-09
Derby City Credit Union Limited	18-Aug-09
Desmond T Moore and Company Limited	08-Mar-10
Diamond Lifestyle Limited	02-Sep-09
Eastbourne Community Credit Union Limited	15-Jul-09
Edinburgh Hackney Cab Trade Credit Union Limited	18-Mar-10
Elephant Loans Limited	17-Dec-09

Legal name	Default date
Englands UK Limited	16-Nov-09
Essential Loans Limited	16-Dec-09
Eurolife Assurance (International) Limited	24-Apr-09
Fair Finance UK Limited	15-Dec-09
Finance Direct (UK) Limited	15-Dec-09
Financial Quest UK Limited	15-Dec-09
First 4 Brokers Limited (formerly t/a F4B)	10-Jun-09
First Class Mortgages Limited	22-Feb-10
First Trade UK Limited (formerly t/a First Trade Derivatives Limited)	01-Mar-10
Flint & Co (Abingdon) Limited	17-Dec-09
Foster Woods & Company Limited	15-Dec-09
GEL Securities Limited	17-Mar-10
Gibbins Financial Services	10-Feb-10
Global Trader Europe Limited	13-Jul-09
Goldsmith Financial Advisers Limited	10-Sep-09
Henry Payne Insurance Services	14-Apr-09
Hi-Tech Marketing Limited	10-Feb-10
Howard Broadley and Company	21-Sep-09
HT Financial Limited	11-Mar-10
Hull Northern Credit Union Limited	18-Aug-09
I Burns (deceased) t/a Coburn Financial Services	19-Mar-10
I.D.S. Mortgage Pension & Investment Centre	08-Jun-09
Ideal Loans Limited	13-Jan-10
IFA Centre Limited (formerly HWPS Limited)	08-Sep-09
IPTC Limited (formerly t/a The Insurance Policy Trading Company Limited)	10-Feb-10
Irvine North Credit Union Limited	09-Jul-09
J McKeown (deceased) t/a John McKeown & Son	28-Oct-09
J.R. Murdoch Insurance Services Limited	08-Sep-09
James Alistair Lowe	21-Dec-09
JDS Mortgages, Insurance & Investment Centre	17-Mar-10
Jeffery Flanders (Consulting) Limited	11-Mar-10
John Bruce (deceased) t/a Nigel Yates & Company	19-Nov-09
John Ebsworth & Partners (formerly t/a The Mortgage Consortium)	31-Jul-09
K C Consultancy (NW) Limited	22-Feb-10
Keydata Investment Services Limited	08-Jun-09
Leathams Financial Services Limited	05-Mar-10
Leebrook Independent Financial Advisers Limited	17-Mar-10
Liberty Financial Consultants	22-Sep-09

Continued

Legal name	Default date
Lifelong Financial Planning Limited	29-Apr-09
LL Processing (UK) Limited	15-Sep-09
Loan Link Mortgage Management Limited	11-Mar-10
Loan of Choice Finance Limited	16-Dec-09
Loanmakers Limited	16-Sep-09
Loanoptions.co.uk Limited also t/a Commercialloanoptions.co.uk and Merchantbusinessfinance.co.uk	16-Dec-09
M Clipson t/a Eagle Financial Services	21-Sep-09
M Wright & V Staton (both deceased) t/a Michael Vernon	17-Feb-10
Magic Loans Limited	26-Oct-09
Mansion House Securities Limited	24-Nov-09
McGee Lindsay & Company	22-May-09
Metlife Independent Financial Services Limited	14-Jan-10
MFM Financial Limited (formerly t/a Martin Financial Management Limited)	08-Sep-09
N Nicholson t/a Lighthouse (Vintry) and Guildhouse	29-Jun-09
Nameshell 5 Limited (formerly t/a Blackwall Green Limited)	16-Jul-09
NDF Administration Limited	14-Oct-09
Network Data Limited	10-Feb-10
Norland Financial Services Limited	01-Dec-09
Oronhurst Limited	23-Feb-10
P Hilder t/a Savings Assured Mortgages	02-Sep-09
Penn Financial Services Unlimited	19-Mar-10
Peoples Loans Limited	26-Oct-09
Phoenix Mortgage Services (UK) Limited	10-Feb-10
Picture Financial Services Plc	08-Jul-09
PMSG Insurance Services Limited also t/a Professional Mortgages Services Group	01-Mar-10
Portfield Mortgage Services Limited	22-Feb-10
Portland Realisations (APS) Limited (formerly t/a APS Mortgages (UK) Limited)	10-Feb-10
Princeton Financial Management Limited	22-May-09
Principia Consulting Limited	07-Oct-09
Priory Financial Services Limited	22-Feb-10
Promise Finance Limited (formerly t/a Promise Solutions Limited)	27-Oct-09
Pullen and Davies Financial Services Limited	17-Feb-10
R Church and E Tucker t/a Glinthurst Insurance & Financial Consultants	22-May-09
Rainbow Insurance Services Limited	12-Mar-10
RBUK Financial Limited (formerly t/a Ronald Blue & Company (UK) Limited and The Investment Practice Group PLC)	01-Feb-10
Redcar and District Credit Union Limited	02-Mar-10
Roy E Sansom & Co Limited	22-Feb-10
Royvale Limited	22-May-09
Runstone Limited	01-Feb-10

Legal name	Default date
Saint Pauls Capital Limited (formerly t/a Hoblyn Walker Corporate Finance Limited)	01-Mar-10
SFM Wealth Management Limited (formerly Solicitors Financial Management (Newcastle) Limited and Solicitors Financial Centre (Newcastle) Limited)	29-Sep-09
Sharles Financial Management Limited	26-Oct-09
Shield Insurance Consultancy Limited	02-Mar-10
Simply Loans Direct Limited	16-Sep-09
Smart Finances Limited	16-Dec-09
South West Durham Credit Union Limited	11-May-09
Spectrum Loans & Mortgages Limited	05-Oct-09
St Brendan's Credit Union Limited	28-May-09
Suma Securities Limited (formerly t/a Willow Finance, Albany Finance, Cash Galore, Loans Galore, Money Galore and Mortgage Galore)	30-Sep-09
Swanley and North Kent Insurance Brokers Limited	22-May-09
Synergys Ethical Limited	05-Jan-10
T & H Partnership LLP	08-Sep-09
Talisman Financial Services Limited	08-Sep-09
Taxinvest Group Limited	23-Mar-10
Teathers Limited (formerly t/a Teather & Greenwood (1995), Teather & Greenwood Limited and Landsbanki Securities (UK) Limited)	10-Feb-10
The Aldgate Insurance Company Limited	12-Nov-09
The Analysts (Pension & Investments) Limited	10-Feb-10
The Edgbaston Mortgage Company Limited t/a Think Mortgages	26-Mar-10
The Garrison Finance Centre Limited	10-Feb-10
The Loan Processing Centre Limited (subsequently LPC (Realisations) Limited)	17-Dec-09
The Personal Loan Express Limited	19-Nov-09
TML Financial Solutions Limited (formerly t/a The Mortgage Lender Limited)	08-Dec-09
Trustguard Credit Services Limited	29-Sep-09
Twopart Limited	08-Sep-09
Vesta Money Limited	05-Jan-10
Wade Associates (formerly t/a J P L Wade & Associates)	06-Jan-10
Weller, Russell & Laws Financial Services Limited (formerly t/a Weller & Co (Life and Pensions) Limited	08-Jun-09
Wellington Insurance Services Limited	19-Oct-09
White Square Investments Limited (formerly t/a Lombard Asset Management Limited and Berwin Asset Management Limited)	01-Mar-10
William A Grey	09-Apr-09
William James & Company (Life and Pensions) Brokers Limited	18-Mar-10
Wilson Insurance Services t/a Wilson Estates	08-Sep-09
Woodbridge Associates	08-Sep-09
Woodham Ramley & Associates Heanor	31-Mar-10
Wycliffe Financial Services (formerly t/a Daniel Lawrence & Associates)	19-Mar-10

Section 10

Understanding Our Work

The FSCS is the UK's statutory fund of last resort for customers of financial services firms. The FSCS is a company limited by guarantee and a non-profit-making independent body.

The FSCS was formed to be the designated Scheme Manager under Section 212 of the Financial Services and Markets Act 2000 (FSMA). The FSCS's full powers were assumed on 30 November 2001 when the powers of the Financial Services Authority (FSA) came into force.

Our main role

Our main role is to protect UK consumers against incurring a financial loss when firms regulated by the FSA (and earlier financial regulators) are unable, or are likely to be unable, to pay claims against them. We do this by aiming to provide an effective and efficient compensation scheme to eligible consumers.

Consumers do not need to use a claims management company. The FSCS is funded by levies on authorised financial services firms. We do not charge individual consumers for using our service.

We also aim to help maintain confidence in the financial services sector.

There are limits to our powers. For example, there are limits to the amount of compensation we can pay, and we pay compensation **only** for financial loss.

The rules governing the operation of the FSCS are made by the FSA and can be seen in the FSA handbook of rules and guidance: http://fsahandbook.info/FSA/html/handbook/COMP.

The Scheme itself is divided into five classes which cover:

- Deposit;
- General Insurance;
- Life and Pensions;
- Investment; and
- Home Finance.

These are examined in more detail below.

What we protect

Deposit class

We provide protection for the customers of FSA-authorised firms which take deposits, such as banks, building societies and credit unions. If a firm is unable to repay its depositors, or is likely to be unable to do so, the Scheme is triggered. This may happen, for example, if a firm is subject to an insolvency action, such as liquidation or administration. This is described by us as being 'in default'.

*Compensation limit: £50,000 or 50,000 euros (whichever is higher)**
Up to 100% of £50,000 or 50,000 euros per person, for the total of their deposits (less borrowings) with that firm. Deposits in all currencies are covered.

General Insurance class
Policyholders are eligible for protection if they are insured by authorised insurance firms under contracts of insurance issued in the UK, or in some cases in the European Economic Area (EEA), Gibraltar, the Channel Islands or the Isle of Man. Certain policies issued before 1 December 2001 may also be protected for risks elsewhere in the world.

Compensation for policyholders is triggered if an authorised firm is unable to meet claims against it, for example if it has been placed in provisional liquidation or administration.

* Applicable from 30 June 2009. In the event of a default, the euro amount will be calculated by reference to the currency exchange rate on the day of default. For claims against deposit-taking firms declared in default between 7 October 2008 and 29 June 2009, the deposit compensation limit is £50,000. For claims against deposit-taking firms declared in default between 1 October 2007 and 6 October 2008, the deposit compensation limit is 100% of the first £35,000. For claims against deposit-taking firms declared in default before 1 October 2007, the maximum level of compensation is £31,700 (100% of £2,000 and 90% of the next £33,000).

We do not cover re-insurance or marine, aviation, transport business or credit insurance.

Lloyd's policies are covered from 1 January 2004 if the Central Fund fails.

We aim to provide continuity of cover if possible, for example by arranging for policies to be transferred to another firm. If this is not possible, we can pay compensation to eligible consumers.

Compulsory insurance
Compulsory insurance is covered in full, for example third party motor insurance and employer's liability insurance.

Non-compulsory insurance
For non-compulsory insurance, the FSCS limit of compensation for claims against firms declared in default on or after 1 January 2010 is 90% of the claim with no upper limit. The maximum level of compensation for claims again firms declared in default before 1 January 2010 is 100% of the first £2,000 plus 90% of the remainder.

General Insurance Intermediation sub-class
General Insurance Intermediation is a sub-class of the General Insurance class. Intermediation is when consumers are given advice or have their policies arranged on their behalf by a third party.

Consumers are eligible for compensation if they bought general insurance policies through an authorised firm in the UK or, in some cases, a firm's branch in the EEA on or after 14 January 2005.

The Scheme is triggered if an authorised firm cannot meet claims against it. We may be able to help:

- if consumers have been mis-sold a policy and have lost money as a result;
- if the firm becomes insolvent and cannot return money owed to its customers; and
- in cases of fraud.

If insolvency practitioners are appointed, we work closely with them to establish the most effective method of processing claims.

Compensation limit
Compulsory insurance
Advice and arranging compulsory insurance (such as third party motor insurance or employer's liability insurance) is protected in full for claims relating to business conducted on or after 14 January 2005.

Non-compulsory insurance
For non-compulsory insurance, the maximum level of compensation for claims against firms declared in default on or after 1 January 2010 is 90% of the claim with no upper limit. The maximum level of compensation for claims for business conducted on or after 14 January 2005 and against a firm declared in default before 1 January 2010 is 100% of the first £2,000 plus 90% of the remainder.

Life and Pensions class

If a company offering life insurance fails, the FSCS's first duty is to attempt to preserve continuity of cover if possible. We do this by arranging for the transfer of existing policies to another insurer or getting that insurer to issue substitute policies. This transfer of business must cover at least 90% of the benefits that policyholders are entitled to receive under their existing contracts.

Compensation limit
We will pay compensation only where continuity of cover is not practicable or beneficial to the majority of eligible claimants. Where compensation is payable, the maximum level for claims against firms declared in default on or after 1 January 2010 is 90% of the claim with no upper limit. The maximum level of compensation for claims against firms declared in default before 1 January 2010 is 100% of the first £2,000 plus 90% of the remainder.

Investment class

For investment claims, we can provide protection if:

- investors suffer losses arising from bad investment advice, poor investment management, mis-representation or fraud; or
- an authorised firm cannot return investments or money owed to its customers.

Please note that we can only consider claims for investment business conducted on or after 28 August 1988, which is the date when an investor compensation scheme was first established in the UK.

Compensation limit
The maximum level of compensation for claims against firms declared in default on or after 1 January 2010 is 100% of the first £50,000 per person per firm.

The maximum level of compensation for claims against firms declared in default before 1 January 2010 is 100% of the first £30,000 and 90% of the next £20,000 up to £48,000 per person per firm.

Home Finance Intermediation

Home Finance Intermediation is a sub-class of the Home Finance class. FSCS protection was extended to include advice and arranging home finance for business conducted on or after 31 October 2004.

Compensation limit
The maximum level of compensation for claims against firms declared in default on or after 1 January 2010 is 100% of the first £50,000 per person per firm.

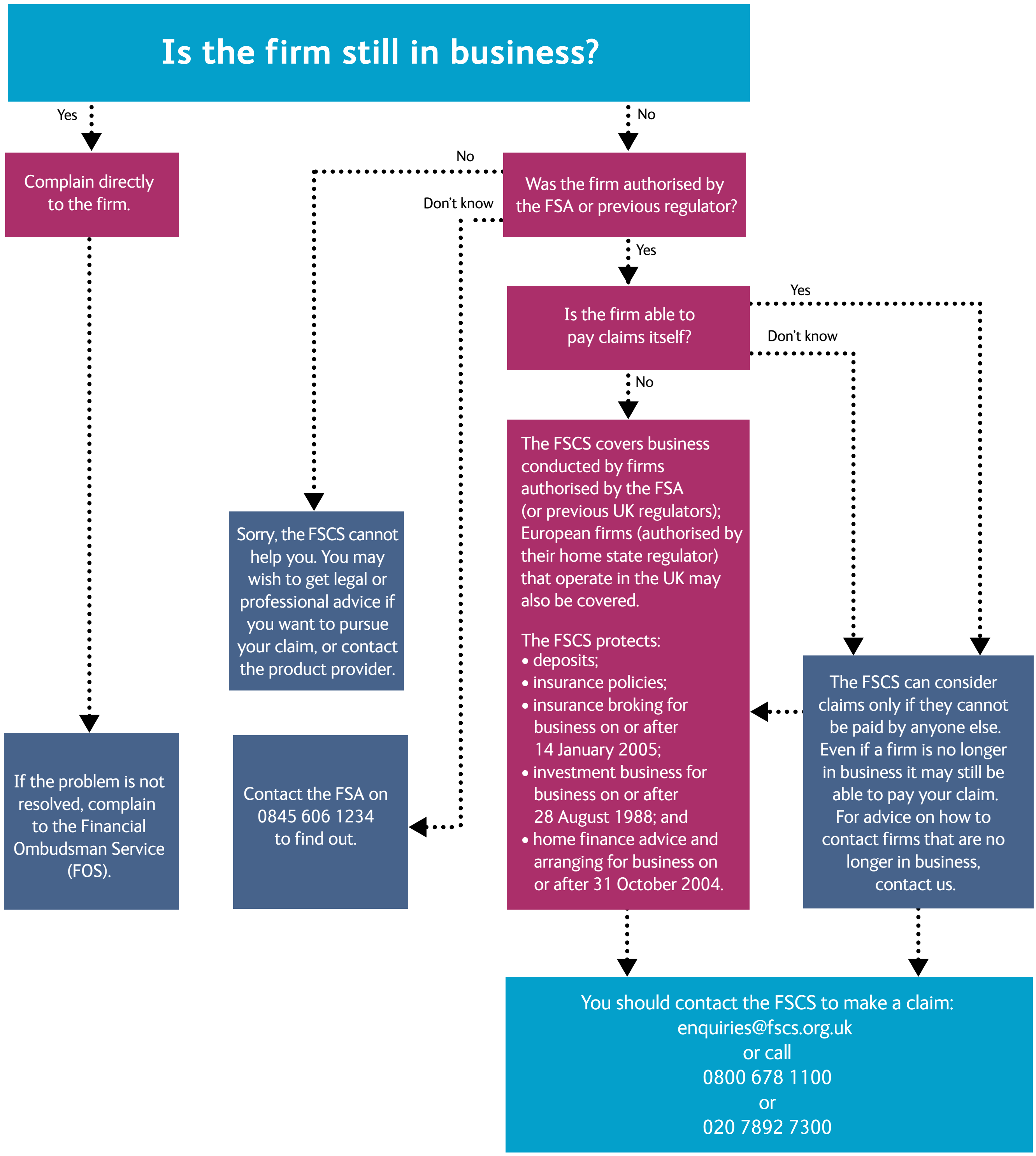
The maximum level of compensation for claims against firms declared in default before 1 January 2010 is 100% of the first £30,000 and 90% of the next £20,000 up to £48,000 per person per firm.

Check whether the FSCS can help

Consumers and their advisers can use the following chart to get an indication of whether or not the FSCS can help with a claim. The example in the chart is for a potential investment claim – but the principles could broadly apply to the other classes we cover.

Can we help you?

The following chart can be used to work out whether the FSCS may be able to help you with your claim.



Where claims come from

The claims we deal with come from a combination of the following:

- individual consumers who come to the FSCS 'off the street' because they cannot resolve a claim with a financial services firm;
- notification of large defaults where we will need to deal with high volumes of claims against one firm, for example a large investment firm or large deposit taker; and
- notification of a smaller default such as a credit union. In these cases, where we consider they may have a valid claim, we will contact the depositors directly.

Most 'off the street' claims during 2009/10 have related to defaults involving various, and often complex, investment products or the mis-selling of Personal Protection Insurance (PPI).

A consumer who thinks they may have lost money because of the advice they received will usually try to contact the firm with which they dealt. For some claims, consumers may have dealt with a financial adviser many years before and find that the firm is no longer trading. If the firm cannot consider their claim for compensation, the FSCS can step in.

Deciding who is eligible to receive compensation

We have a duty to our levy payers to ensure that we only pay compensation for eligible claims. There is more on how we are funded on page 132.

We review each claim to make sure it is eligible for compensation under our rules. Where applicable, we follow the guidance provided by the regulator. We also discuss our approaches to handling claims with the Financial Ombudsman Service and relevant trade bodies.

We have no discretion to pay compensation to consumers if their claim falls outside our jurisdiction.

The majority of consumers we deal with are private individuals. However, under certain circumstances, small companies may also be eligible for compensation.

When we look at each claim we consider, for example, if the product was mis-sold because the firm failed to describe, or mis-described, the risk to the investor. We gather and examine the evidence from the consumer, any client files that are available from the failed firm and any information from the product's providers. We also look at the consumer's attitude to risk and investments when they bought the product concerned to help us establish whether:

- the advice to take out the product was suitable for the needs of the consumer at the time; and
- the consumer was advised of the risks associated with the product.

For all claims we must be satisfied that there is a financial loss for which the firm is liable.

Establishing financial loss

The aim of compensation is generally to put the consumer back in the position they would have been in.

For claims for inappropriate advice, under our rules, the FSCS can only pay compensation that is essential and fair. If we uphold a claim, in order to determine whether we can pay compensation, we must then establish that the claimant has made a financial loss that has been caused by the activities of the firm they dealt with. We do not pay compensation just because an investment has not performed as a consumer had hoped it would, or to take account of a projected shortfall.

Endowment claims

For endowment claims, for example, this generally means we compare the position of a claimant's endowment mortgage with the position they would have been in had they taken a repayment mortgage (the risk-free alternative) as at the date we consider the claim. We also take into account any savings a claimant might have made (lower monthly outgoings, for example) when calculating how much compensation may be due (but we will also consider, on the facts of a claim, whether this should not apply).

PPI mis-selling claims

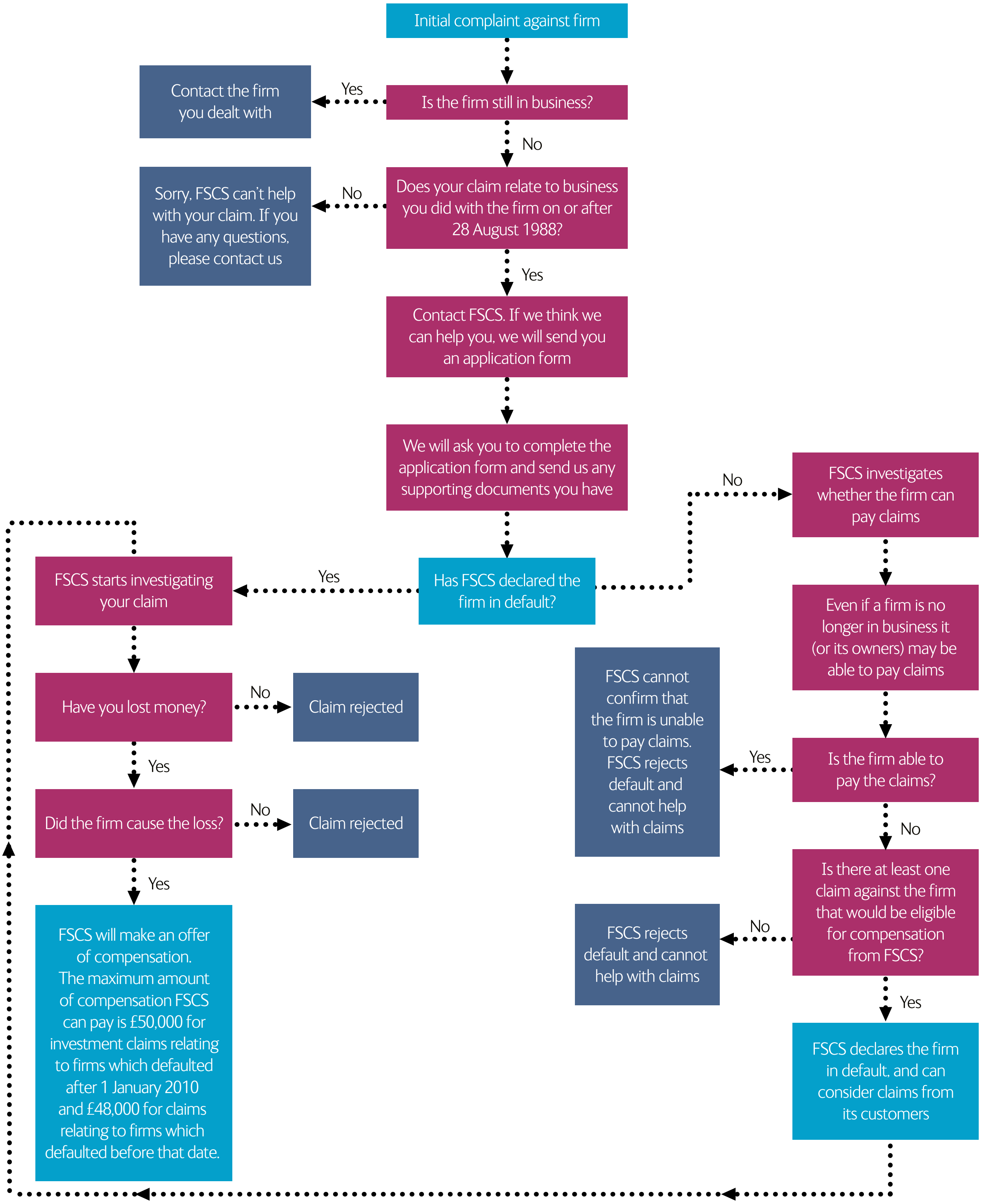
For PPI mis-selling claims, we may reimburse the claimant their original premium amount, together with any interest paid to date in respect of that premium, less any benefits already received and minus any rebate due on cancellation. We may also take account of an element of a future no claims bonus payable under the policy.

How our claims process works

The following chart is a basic guide to our claims process. In this example it is an investment claim, but it could equally apply to other classes.

Investment claims flow chart

This flow chart gives an example of the process we use to handle an investment claim.



How the FSCS is funded

The FSCS is funded ultimately by levies on authorised firms, but it also receives recoveries and has access to borrowing facilities.

The FSCS's costs are made up of management expenses and compensation payments.

Management expenses

Management expenses are the FSCS's running costs and are split between base costs and specific costs.

All firms contribute to the base costs – the costs of running the Scheme that are not dependent on levels of activity – in proportion to the annual fees they pay to the FSA.

Specific costs are the costs of assessing claims and making payments. These are allocated to the relevant classes and sub-classes.

The management expenses levy is subject to an annual limit, following consultation with the industry by the FSA. The Management Expenses Levy Limit for 2010/11 has been set at £1bn.

Classes and sub-classes

The FSCS funding model, which became effective on 1 April 2008, consists of five broad classes:

- Deposit;
- General Insurance;
- Life and Pensions;
- Investment; and
- Home Finance.

With the exception of the Deposit class, each broad class is divided into two sub-classes.

Each sub-class is made up of firms which are defined as either being 'provision' or 'intermediation', and:

- engage in similar styles of business with similar types of customer; and
- share a common interest in protecting their collective good name.

Firms are allocated to sub-classes according to the type of business they are authorised by the FSA to carry out. A firm could be allocated to one or more classes according to its permitted activities.

The model operates on the basis that a sub-class will meet the compensation claims from defaults in that sub-class up to its levy threshold.

Once a sub-class reaches its annual threshold the other sub-class within their broad class will be required to contribute to any further compensation costs. A final layer of cross-subsidy is then available from the general retail pool, through which all the other broad classes support any class which has reached its overall threshold, up to the overall limit. This is explained in the diagram opposite.

Annual levy thresholds

An annual threshold is set at the point when it is no longer reasonably affordable for a particular sub-class or class to shoulder by itself all the compensation costs associated with it, so that the outstanding costs must be spread more widely.

General retail pool

The general retail pool sits 'above' all five broad classes (see the diagram opposite).

The total levy on all the classes under the general retail pool provides an annual capacity of about £4.03bn to the FSCS unless defaults arise in the Home Finance Intermediation sub-class, in which case the total capacity is £4.10bn. This is because the £70m contribution from the Home Finance Provision can be levied only for defaults in the Home Finance Intermediation sub-class.

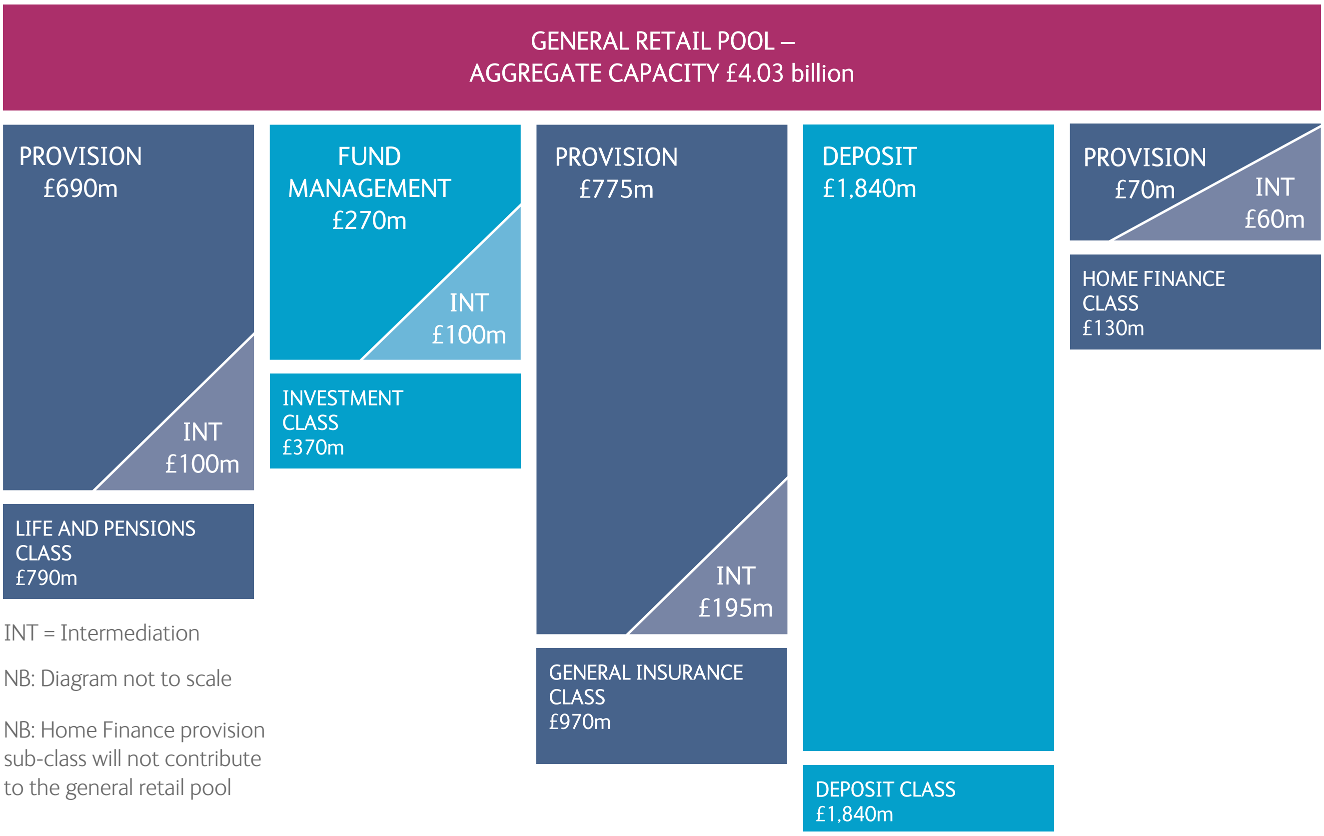
Levy limits

There are limits to the amounts the FSCS can levy in a financial year, which are in addition to the Management Expenses Levy Limit. For compensation payments, the limits for each class are:

- Deposit: £1,840m;
- General Insurance: £970m;
- Life and Pensions: £790m;
- Investment: £370m; and
- Home Finance £130m.

Any costs exceeding these thresholds for each class would trigger the general retail pool and be shared more widely. The general retail pool would be triggered only in the event of a significant default or a series of defaults.

Class and sub-class annual levy limits



List of abbreviations

ACD – Authorised Corporate Director

AUT – Authorised Unit Trust Scheme

B&B – Bradford & Bingley plc

COMP – the Financial Service Authority's Compensation Sourcebook

DBS – Dunfermline Building Society

DIGF – Iceland's Depositors' and Investors' Guarantee Fund

FRS – Financial Reporting Standard (UK Accounting Standards Board)

FSAVCs – Free Standing Additional Voluntary Contribution claims

FSCS – Financial Services Compensation Scheme

FSMA – Financial Services and Markets Act 2000

GAAP – Generally Accepted Accounting Principles

ICD – Investors' Compensation Directive

KSF – Kaupthing Singer & Friedlander Limited

LIBOR – London Inter-Bank Offer Rate, i.e. the interest rate that the banks charge one another for loans

MELL – Management Expenses Levy Limit

N2 – 30 November 2001. Date when the FSMA was fully enacted

PI – Professional indemnity

PPI – Payment Protection Insurance

QA – Quality assurance

QPU – Quality Programme Unit (at the FSCS)

SCV – Single Customer View

SDDs – Specified Deposit Defaults, i.e. the five specified bank defaults from 2008/09:

- Bradford & Bingley plc;
- Landsbanki Islands hf (Icesave);
- Heritable Bank Plc;
- Kaupthing Singer & Friedlander Limited; and
- London Scottish Bank Plc.

SRR – Special Resolution Regime (introduced under the Banking Act 2009)

t/a – trading as

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Produced by COI for the Financial Services Compensation Scheme